COMMUNICATIONS PROBLEMS IN ALASKA

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ON

COMMUNICATIONS PROBLEMS IN ALASKA

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COMMUNICATIONS PROBLEMS IN ALASKA

MONDAY, AUGUST 30, 1982

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Anchorage, Alaska.

The committee met, pursuant to notice, at 9 a.m., in room 113, Federal Center Building, Hon. Ted Stevens presiding.

Staff member assigned to this hearing: Riley Temple, staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. I am pleased that we can hold these hearings in Alaska. I asked our committee chairman to allow us to do this so we can establish a record here for those who wanted to give the Commerce Committee their views without the necessity of holding a hearing in Washington that would cause all of you to have to make a trip to Washington.

I do not think there is a field of greater importance to Alaska than communications. We have obviously a great interest in the telecommunications revolution. We have in the Senate dealt with literally dozens of pieces of legislation in the last year or so to update the legislative and regulatory framework of government. We are trying to get government out of the way of the rapidly accelerating changes in the industry because most of us believe that the 1934 Communications Act simply does not do the job today. It was modeled after an act that had been in effect for years to deal with railroads, and we really never addressed the changes that were brought about by telecommunications.

We have streamlined the process for license renewal for broadcasting and deregulation of amateur radio services and other areas. We have still got the most significant area to address, which is the complete rewrite of the Telecommunications Act in broadcasting, cable television, and common carrier services.

What really brought about this hearing was the concern that I have over the recent Justice Department AT&T settlement of their longstanding litigation. Judge Greene, who is the judge that heard the case, issued a 175-page opinion that serves to modify the settlement to conform to comments by consumers, industry, and other segments of government. That has now been accepted by Justice and AT&T and is going to serve as the telecommunications policy for the country unless Congress enacts legislation.

The Senate did pass a Telecommunications Competition and Deregulation Act of 1981 by a vote of 90 to 4, and I felt that it included fundamental protections for the Alaska Telecommunication

System and insured that we would be a part of that system—benefiting by competition while insuring that we have the expansion to universal service at reasonable rates. That has been, I think, the objective of everyone here in the room.

I am not certain what the future will hold under the Greene decision in the absence of legislation, but I still feel the objectives of the Senate bill were sound, and I think we are going to have to move legislation as more people really study the Greene decision. As I said, that is the primary reason for holding these hearings.

We want to develop the record as to what you believe will be the impact on Alaska as a result of the Greene decision, but that is only one purpose. We have got broadcast deregulation and treatment of the cable television industry and other issues, and we have invited many of you here just to establish a record for the committee. The staffs of the members of the committee will study it to give them better understanding of Alaska's need as we get to the point where we do act on some legislation.

We have representatives here of the State government and public and private industry, cable television, satellite carriers and the telephone utilities, and I am most grateful that the Governor has seen fit to arrange his schedule so that he will be the first witness here today.

It is a privilege to have you, and thank you for helping us make this record.

STATEMENT OF HON. JAY HAMMOND, GOVERNOR, STATE OF ALASKA, ACCOMPANIED BY ALEX HILLS

Governor HAMMOND. Thank you, Mr. Chairman and members of the panel.

I would like to begin by expressing our appreciation for your holding hearings here in Alaska and permitting those concerned with the telecommunications industry and other interested parties in various sectors to be heard.

Now, there are a number of telecommunications issues which will be addressed today. I would like to speak about one issue of concern to the State. That issue is universal telephone service for our people. We in Alaska are uniquely concerned with this issue, as you are well aware. Alaska is one-fifth the size of the contiguous 48 States; 95 percent of our communications are rural, most of them are accessible only by boat, snowmobile, or aircraft. It is clear that telecommunications plays a unique role in Alaska. This is why we have been active over the years before the FCC in telecommunications issues and why the State has followed and participated in the telecommunications legislative process.

We have recognized that fundamental changes in the telecommunications industry will require an appropriate legislative response to insure that universal telephone service is extended to those who do not have it and preserved where it exists today.

Universal service does not today exist in Alaska. While modern efficient telephone service is available in Alaska's cities and in some remote communities, many Alaskans pay substantially higher rates than consumers in the lower 48 for comparable services. In contrast to the situation which exists in the lower 48, rural

service in Alaska is only now being developed. Since Alaska's remote communities are too small and too widely dispersed to support a telecommunications system designed using lower 48 methods, it was the advent of domestic satellite service in the early 1970's that made modern, efficient, Statewide communications possible.

During the last 6 years, satellite stations have been built in many remote Alaskan communities. These stations have, for the first time, made reliable long-distance telephone service possible. However, this service is not the kind which many in the lower 48 take for granted. In most of America, residents have available private or party-line telephone service. In many Alaskan villages, all residents of a community share a single common telephone. All calls are long distance, and during busy periods there is often a substantial delay before a call can be made.

Long-distance calling is used in a unique way in many Alaskan communities. Most of our villages have extremely limited services available locally. Thus, long-distance telephone calls are typically used to order groceries, check on availability of needed repair parts, and to talk with a doctor or request emergency services. Long-distance calling is used by our villagers in the same way that local calling is used by most Americans. Conventional phone service is now being extended to many of our villages. Exchange telephone companies have received certification from the Alaska Public Utilities Commission to serve Alaskan villages, and exchanges are now being built in many of these. This development will bring to these communities service which is comparable to that enjoyed by residents in the remainder of the United States. But long-distance calling will continue to be used in the way I have described.

Alaska's accomplishments have been possible because of the economic support presently provided through cost-sharing and low-interest financing arrangements, arrangements which are based on the principles that universal service is a benefit to all who use the telecommunications system, and that the cost of extending the system to certain remote locations should be shared by all users.

In recent years, however, the courts and the FCC have moved to introduce competition into the telephone industry in the areas of terminal equipment, private line service, and long-distance message toll service. These changes threaten to put considerable pressure on the telephone rates, both local and long distance, experienced by the Alaskan public, and the FCC seems unwilling or unable to take steps to alleviate this pressure. We see this problem as a substantial threat to our progress toward achieving universal service.

What is needed, it is clear, is legislation that provides a specific mandate to the FCC to keep local and long-distance telephone rates at reasonable levels. The legislation should also specify the mechanism to be used to attain this goal.

S. 898, passed by the Senate last fall, included the kind of provisions I have described. If it had become law, it would have allowed telephone rates to be maintained at reasonable levels. While we appreciate the efforts of the Senate and we appreciate your personal

efforts, Mr. Chairman, we regret that the House did not choose to follow your lead by passing similar legislation.

Mr. Chairman, the State of Alaska stands ready to assist you in the drafting of new legislation designed to deal with this most critical problem.

Mr. Chairman, I have with me Mr. Alex Hills, who is the deputy commissioner of administration in charge of telecommunications, and I will ask that he address any specific technical questions you have. Otherwise, I feel that I would demonstrate my ignorance in regard to the field of telecommunications which, in years past, has been limited essentially to when I turn the switch and whether or not something happens. I am, like yourself, a longtime pilot, flying during World War II, and while I can talk with the Moon, I have had problems talking with control towers, and get their immediate attention by signaling. I sometimes think that semaphore flags would certainly be better. So my experience in this field is limited. I have no expertise whatsoever, but I have people working for me that do, and I believe that they will be able to address any questions you might ask.

Senator STEVENS. I do not think that there are many of us left that used to have to buzz the tower until we got the green light switch so we could land. We did not have any communications.

Governor, has your administration analyzed the Greene decisions, and can you give us just a general understanding of how you think or how Mr. Hills advises you that the decision will affect us?

Governor HAMMOND. I would ask that Mr. Hills respond.

Mr. HILLS. Senator Stevens, we have analyzed the effects of the Judge Greene decision, and we have a six-page letter from our Washington, D.C., counsel, which I will be happy to provide to you, which contains that analysis. But in summary, the effects on Alaska are these:

First of all, the Judge Greene decision does nothing to take care of our rate problem here in Alaska, and that is somewhat discouraging because the Judge Greene decision may also reduce the momentum and impetus toward achieving telecommunications legislation. We have felt for some time now that legislation is the right way and the most effective way to take care of this telephone problem, and with that momentum lost naturally because of the Judge Greene decision, it is somewhat discouraging for us.

Senator STEVENS. Do you have any idea what the difference will be between the Greene decision and S. 898 as far as rates and the impact on, for instance, local communities in Alaska?

Mr. HILLS. If I could answer that in a slightly different way, we do have an analysis actually that has been conducted by the staff of the Alaska Public Utilities Commission which indicates that if current trends continue—and as I said, the Judge Greene decision does nothing to help this FCC ratesetting problem—if current trends continue, then we can expect our local rates in Alaska, our local exchange rates to increase in the range of 50 to 400 percent, depending on which telephone company and which local community area you are talking about.

Senator STEVENS. We would like to have copies, if you could provide them. I think, Alex, that the best thing we can do is to give some specific questions prepared by the committee staff to Mr.

Hills and ask if he could prepare a response for us. We would appreciate it if it would come out of your office so we can have some details of the impact of the Greene decision to respond to some of the questions we have been asking elsewhere.

Governor HAMMOND. If you do that, we will guarantee you a response.

Senator STEVENS. I would appreciate it very much.

And thank you, Jay, for taking your time to join us this morning.

Governor HAMMOND. We appreciate the opportunity.

I have another appointment that I have to attend. And again, I express my thanks.

Senator STEVENS. Thank you.

Now, our next witness will be Marvin Weatherly of Alaska Public Utilities Commission.

STATEMENT OF MARVIN WEATHERLY, ALASKA PUBLIC UTILITIES COMMISSION, ACCOMPANIED BY CATHEY HESSER, HEAD OF THE COMMON CARRIER SECTION

Mr. WEATHERLY. Thank you, Mr. Chairman.

I would personally like to introduce Cathey Hesser, who is head of the common carrier section of the Alaska Public Utilities Commission and who I suggest that your staff people might use as a resource of followup of Governor Hammond's comments. The study which the APUC developed on its inhouse computer is attached to my testimony, and Ms. Hesser might be able to follow up any staff inquiries relative to how it was developed and used.

I must qualify from the beginning that these are my views and not necessarily those of APUC. My colleagues, I am sure, will go along with anything I say here today. They may not be or may be a little bit more sensitive as to the bluntness in which I might state certain things.

The foremost characteristic which distinguishes Alaska from the rest of the Nation is the vast area over which our population is spread. That characteristic, along with the limits imposed on transportation by geography, weather, and the relative youth of our State, has resulted in telecommunications becoming the most important requirement for adequate health, education, commerce, and government for the people of Alaska.

Congress, through the Communications Act of 1934, has stressed the importance of developing a national telecommunications network at reasonable rates. The benefits of such a policy to the States, individually and collectively, have certainly been observed over the past 45 years. The cost effectiveness of such a program as it relates to rural areas was in fact evident in the results of the Applied Technology Satellite No. 6, ATS–6, demonstration project.

In keeping with the concept of universal service, past and current separation procedures have been formulated in a manner which encourages the development of a national telecommunications network. However, the current legislative and regulatory climate, with its move toward competitive services and cost-based rates, conflicts with the concept of universal service in Alaska. We, unlike most of the Nation, have not achieved an adequate telecommunications network. In fact, until the last decade, most of Alaska

had no telecommunications service. With the advent of satellite and Earth station technology, we were able in the late 1970's to link many of our bush areas into the system, albeit at a crude level of service and reliability. Even now, approximately 75 communities have no local exchange service and are served by single telephones.

The likelihood of local exchange investments in those communities will be severely diminished by the excessive rates which will be required under some proposed cost allocation methodologies before the Federal Communications Commission. In addition, the economic viability of Alaska's 22 independent telephone companies will be severely threatened by current regulations required or proposed.

We have tried to assess the impact of some of the proposed changes in regulations and cost separations. The exhibit attached demonstrates predicted increases in local residential rates as high as 455 percent, up to $90 a month. These rates demonstrate the potential effect on representative local exchanges under proposed separations and unbundling alternatives. They do not include the impact of access charge, depreciation, or accounting rulings or bypass of local exchange by large customers, all of which will further aggravate the situation.

That threat to the extension of a national telecommunications network at reasonable rates is obvious. Federal regulatory rulings will prohibit Alaska from being a participant in that concept. The impact of changes in cost allocation methods become extreme as they are applied to Alaska. We do not have a population base large enough to absorb that impact, nor have we yet shared with the rest of the Nation in recovery of significant plant investments, since our system growth is so recent.

In summary, legislation is needed which acknowledges our particular problems and which will insure Alaska's inclusion in a national telecommunications network at reasonable rates.

Senator, I have been ill and also out of the State rather extensively for the past 3 months while this was drafted. There are some additional areas I would like to touch on very briefly, and you mentioned one, being the AT&T Justice divestiture, and I think the divestiture and the Justice agreement with the AT&T is in the public interest with Judge Greene's qualifications to the basic agreement. I see no immediate impact on Alaska. What I see is what was articulated by Alex Hills, that it may divert some of the resources and other energies necessary to come forward in a final solution to our problem.

In the competition element, I am totally in favor of competition, but you must understand what the bottom line effect of every element of competition that is introduced into the network that we have grown to live with and understand. Do not accept the economists' view that all of this will fall out, that the bottom line effect will be greater and better telecommunications services to all of the Nation. The bottom line effect is, as we see it, going to be increased rates for the local exchange subscriber and reduced rates for the high volume or the Fortune 500 group. I am not against competition. All I am saying is that when you introduce it, understand what the effect is going to be.

The attitude of potentials, OCC as specialized common carriers to serve Alaska, you will hear and read in the papers all sorts of self-

serving statements as to how they are willing to go out there and serve all of Alaska, but I see none of them stepping forward. I see none of them saying that I will serve Savoonga. I see none of them saying that we will go out and take care of their real needs, take that one telephone off the wall and provide expanded service. Cream skimming is the name of the game from specialized common carriers and other common carriers here in Alaska. They want Juneau, they want Anchorage, and they want Fairbanks and Ketchikan, and frankly, they could care less about the other parts of Alaska.

The NERU hearings that were here a few years back centered on the basic telephone subscribers. Representatives from the Grey Panthers and other elderly groups gave testimony, and the bottom line of the Grey Panthers' testimony is that they want dependable, reliable telephone service. They want plain old telephone service. They do not care whether they own it. They have no pride of ownership of the black telephone on the desk or the wall, but they want to be able to pick up the phone and have it available without any delay.

The past legislation that the Senator referred to and other proposals that have been before Congress which establishes a floor and which will give economic support to the local exchange operators I believe is a must.

Commissioner Fogarty of the FCC recently stated that he, meaning the FCC, may be introducing a situation of the haves and have nots in telephone service, and I hope that is not true.

The past FCC decisions and the current FCC posture is pressuring the local exchange operators rather tremendously, and the area of broadcasting liberalization by the FCC in the area of broadcasting I think is overdue. If anything, Congress should take a look at the attitude of the regulations and statutes with regard to prohibiting these. I would consider it blackmail on the part of some individuals and entities that go hand and hold up license renewals for the sake of accommodating whatever their base desires are without regard for what the public interest might call for. Liberalization of the license terms for 10 years I think would help in that regard considerably.

The FCC in my opinion gets low marks with regard to not taking a definitive stand on AM stereo in particular. To me that is a copout and at best it is a gutless position on their part in the extreme.

The same thing with DBS, the Direct Broadcast Satellite. It would appear to me that we are taking new ideas and jamming the, or rather old ideas and jamming them in new bottles, and that is crazy. The FCC has an obligation, a duty to establish standards that will preclude a technological nightmare.

Going back to the early 1950's and the Federal Communications Commission in the early—the late 1940's on early 1950's said, we are going to just let the marketplace dictate this, we would have had the DBS system with a spinning color wheel, and the NBC system which was later adopted. Now, that would have been in my opinion a real nightmare for the consumer to make a determination in the case of AM stereo, because it backed off of that. The standards for that will be dictated by the industry. That industry is dominated

by the Japanese. The Japanese will determine what standards are ultimately marketed and developed here in the United States.

I think the Federal Communications Commission also must become more aggressive in not only their negotiations at WORK and other international conferences, but must follow up in an early, expeditious manner to make decisions.

The area of cable, deregulation of cable, economic recognition of cable, it has been very good, but I would hasten to add I do not accept the idea that they should be totally deregulated. I think that cable should have a short term prohibition on entering into the common carrier activities, and I believe that continuing certification of the cable systems should rest with the States and not with the municipal governments. The history of abuse of the certification process by the municipal governments has been replete. I think the biggest problem the State commissions and commissioners have is the FCC's total lack of sensitivity to State needs; make your policy pronouncements without regard to the effect of those policy establishments, and this raises havoc with the State commissions.

The State commissions have a constituency of citizens, of consumers within the State itself. The FCC has the constituency of the Congress. And I suggest that the State commissions are more sensitive and more capable of responding to the grass roots of citizens' needs than the FCC.

And finally, the biggest problem I have with the proposed legislation of the past is that in fact it gives the FCC more power. It gives the FCC broader jurisdiction. It gives the FCC more duties, more jobs to perform, and the FCC cannot cope with this present situation.

I think that we should adopt in future legislation the stated views of President Reagan, which is to return control and influence to the States and take it out of Wahington, D.C., and do not give the States the cleanup job of cleaning up the mess that the FCC has created, or give the FCC overview but the dirty work to the States. Make the States an equal partner if possible.

Thank you.

Senator STEVENS. Thank you.

What do you think about giving the FCC jurisdiction over intrastate toll calls?

Mr. WEATHERLY. Well, it makes ultimate sense that one body have control over the interexchange. I am against it personally for philosophical reasons that the FCC is going to have a large degree of difficulty of monitoring what happens in Anchorage, Alaska or Alaska in general. Like I say, they cannot cope with the situation they have now. I think possibly a joint arrangement between the FCC and the State commissions over interexchange tolls and rates would be wise.

Senator STEVENS. I gather you share the committee's opinion that the settlement in Judge Greene's decision does not eliminate the need for legislation in this area?

Mr. WEATHERLY. Definitely not. The major area of Judge Greene's decision that I really applauded was the Yellow Pages. I think the revenues, for example, of the Yellow Pages are vital to

maintaining some degree of stability in the local exchange rates, and as the Senator well knows, I put those views on record before.

In the case of Anchorage here, the local exchange rates would have gone up $5 a month for every subscriber by removing those Yellow Page revenues from our jurisdiction or for consideration in setting rates. Legislation is definitely needed. Judge Greene's decision affects ATT, the Bell operating companies, and the fallout of that decision relative to settlement in the Alaska goods ends with ATT or further down the road.

Senator STEVENS. What do you think about the new FCC deregulatory actions, like deregulation of customer premises equipment? Do you think that it is going to lead to increases in rates for basic services?

Mr. WEATHERLY. No question about it. In the lower 48 I think it makes ultimate sense, in Chicago, Los Angeles, New York, but here in the State of Alaska, with a small exchange operator having now to go out and market if he wants to—he does not have to—first of all, the first final *Computer Two* decision, to show how the thinking was at the FCC, required General Telephone and Electric to set up a fully separate subsidiary, the same as a Bell operating company. That would have meant that GTE of Alaska would have had to have had a separate company at Barrow in order to market customer premises equipment; or Nome or McGrath or Petersburg, Wrangel, and that would have been just absolutely crazy.

The way it is now with the January 1, 1983, decision, based on our commission, on bundling and detariff, that will be pulled out of the rate base, pulled out of the rate base meaning the customer's premise equipment, pull it out of the rate base and automatically there is going to be shortfall of that amount of money through settlements, and it is going to have a decided detrimental effect on rates here in Alaska.

Where are the people going to go as far as purchasing or leasing their telephone? I do not see the interconnect companies, I do not see the Executone of Alaska, for example, standing in the wings to run out to Savoonga and sell telephones out there. It means that the local exchange operator serving Savoonga and any other rural communities will have to continue providing that service on a deregulated basis, meaning that he or she can charge anything they want for that instrument because there is no competition other than possibly the Sears Catalog.

Senator STEVENS. What is the extent of bypassing local exchanges here? Is that going to be a problem for us in the future?

Mr. WEATHERLY. It is. Bypassing the local exchange or skimming revenue, the high-use revenue, from Anchorage and Fairbanks, Juneau and Ketchikan will have a definite effect on other revenues, and this is why the access charge development is ultraimportant to make sure that any access charge offsets the losses that would be suffered by local exchange bypass.

Senator STEVENS. Now tell me about the study that—it says here what changes in telephone procedure—what is the bottom line on that study?

Ms. HESSER. The bottom line on that study is that under the industry proposed cost allocation method for separation, we have rates for local exchanges going up from approximately 60 percent

to 455 percent per month. This is merely—well, this data is just the beginning. It does not consider several other proposed methods of cost allocations and separations, and as the Commissioner mentioned earlier, it does not consider several other proposed rulings that the FCC has which will cause the increases to go up even more. What we would like to do is as we get more and more information, rerun these programs and try to keep current on what the potential input will be. We also propose to take this information to our meetings with the joint board. We have four other runs of this that we will be taking in two weeks to establish a Federal-State board meeting in Minneapolis.

Senator STEVENS. How effective is that joint board procedure doing for protecting Alaskan interests?

Mr. WEATHERLY. Well, I think that the joint board which I sat on was effective. I do not believe the current joint board, because quite frankly, not to throw rocks at NERU, it is stacked against it. There is no representative on the joint board. They are all from the Eastern States, and that is an area that the Senator might want to consider with regard to the establishment of joint boards, that all sections of the United States should be represented on joint boards. We do have—well, I take it back. We have Commissioner Revel of California on there, but he is outvoted by the Eastern bloc, and we do have a staff member or staff members on the joint board staff. That will help protect our blind side in this area.

Senator STEVENS. Would the concepts involved in S. 898 have assisted to alleviate the problems of the study that Ms. Hesser proposes?

Mr. WEATHERLY. I believe so, Senator. I think the marching drum to which the FCC is moving would have been different than the way they are under the present conditions.

Senator STEVENS. Thank you very much. We appreciate your coming to be with us today.

[The following information was subsequently received for the record:]

SUPPLEMENTAL STATEMENT OF COMMISSIONER MARVIN R. WEATHERLY

Although "universal service" has been mentioned in previous Senate bills, the language should be strengthened to give the strongest signal or mandate to the Federal Communications Commission that universal service is more than a passing gesture of Congress and should not be "sold-off" for the sake of competition.

Needless to say, we have not reached a state of universal service in Alaska or in many parts of our nation. It is vital that an economic floor be established that will guarantee the continuing existence of high-cost exchange operations. Without a revenue pool dedicated to offset these high costs, it is doubtful that many of the exchange operations in Alaska can survive. The lack of telecommunications to rural Alaska translates into a downturn in economic development and mounting pressure on the currently inadequate transportation systems of this State. Both of these items will reflect in higher costs to the consumer and to the federal/state governments.

I favor a qualified FCC jurisdiction over interexchange tariffs but I have continuing doubts as to the effectiveness of the FCC in meeting its burden. Historically, the FCC has been found inadequate in the regulation of interstate telecommunications. Inadequate due mainly to a myopic paranoia relative to ATT and the Bell System. I would suggest a procedure or mechanism that would give prime jurisdiction to the FCC and a subordinate role to the State Commissions. The structure would include a review and approval by the State Commissions of interexchange tariff filings. Review and final approval would rest with the FCC. This approach has two positive features: (1) it brings the states into the process in an active role and (2) it will give

relief to the already overburdened resources of the FCC. A further refinement, which I believe could have positive benefits would be to grant review and final authority to a Federal/State Joint Board. In this instance the federal Joint Board members would outnumber the state members.

Title 47, Section 410, establishes a procedure to be used in the appointment of a Federal/State Board. I have two concerns which should be addressed by Congress: (1) The current Joint Board selection practice is to appoint four State Commissioners nominated by the NARUC. There is a problem with the internal politics of the NARUC which results in an imbalance or unfair representation on the current Joint Board. Three of the four State Commissioners serving on the Joint Board are from the East Coast with Commissioner Richard Gravelle of California being the sole western representative. Because of the seniority system in the NARUC, future Joint Boards would likewise be overly weighted in favor of the eastern establishment. This section of the Act should be modified to direct the NARUC to give balanced regional representation in its Joint Board nominees. (2) The out-of-pocket expenses of Joint Board members should be paid by the federal government. This should also include the out-of-pocket expenses of state staff members who are appointed to the staff of the Joint Board. Joint Board participation by states is of importance not only to the states but the nation and the FCC in developing balanced solutions to federal/state jurisdictional problems.

I believe that future legislation should also direct the FCC in the strongest language to develop meaningful standards for the new technology entering the marketplace. The recent FCC action (or lack of action) in declining to establish AM stereo standards will live to haunt this nation in the years ahead. AM stereo standards will now be dictated by the Japanese. The Japanese are the world's largest producers of receivers and the inability of the FCC to come to grips with technical standards will now serve a plum to the receiver industry of Japan and at no small cost to the U.S. consumer. The same point can be directed to the question of standards for Videotext and other new technology applications coming to the forefront. The FCC's predeliction to allowing the marketplace to establish standards is basically nonsensical and creates an atmosphere of technological chaos.

The FCC has made some very strong moves in the area of broadcasting. I applaud their efforts to deregulate and remove many of the onerous regulations that have plagued the broadcast industry for years. However, the FCC is faced with a problem that is very familiar to the APUC, and that problem centers around the protests or interventions of parties for the purpose of financial gain unrelated to the merits of the protest. The intervenor or protestant creates a legal barrier and makes it cheaper to pay tribute to the complaining party than to pursue the merits of one's case. I fully understand the question of party rights and due process, but I would encourage enactment of legislation which would discourage blatant abuses of the system. One solution might call for the posting of a bond or the authority of the FCC to award legal fees to the prevailing party.

Deregulation of cable television is alive and well in Alaska. The development is orderly and well-founded in Alaska because of state regulation; specifically in the area of certification. I favor state regulation of cable systems and I am totally opposed to municipal or city regulation of cable TV. The abuses by cities read like a modern-day horror story of corruption and intrigue. I believe that federal regulation should be minimal at best and only applicable where state regulation is absent. The main reason for my objections to FCC regulation of cable, as in other areas in general, is that they are almost totally insensitive to the unique problems of the various states. The FCC record in cable TV regulation has been less than illustrious. A middle ground solution would be regulation comparable to the pole contact statute that mandates FCC regulation absent state regulation.

I believe FCC/Department of State international telecommunications conference negotiations have been somewhat less than effective in protecting this nation's interest. The current flap with Cuba and the unilateral treaty abrogation by Canada of the North American Regional Broadcast Agreement (NARBA) are just two examples of failure. The most effective U.S. advocates in the past have been the Ad Hoc Committees of the National Association of Broadcasters and the American Radio Relay League and others outside the government. I would suggest that mounting pressures from various nations of the world on the R.F. spectrum dictate that U.S. interests be more effectively articulated and defended. The current and past system has not worked effectively. I would further suggest that a meaningful approach to this problem would be for the President to appoint a Blue Ribbon Panel of experts from the various affected groups (broadcasters, amateur radio, manufacturing industry, military, etc.) and have this panel come up with an optimum plan for protecting U.S. interests in the future.

SUPPLEMENTAL STATEMENT OF KATHLEEN W. HESSER

At the August hearing in Anchorage, I testified that the Alaska Public Utilities Commission Staff would provide information to the Senate Commerce Committee on Joint Board (CC Docket No. 80–286) activity as it became available. Unfortunately, there is not any new statistical information available at this time, and there will not be until the end of November or mid-December. As a member of the Joint Board staff, I participated in the drafting of an Order Requesting Further Comments which was submitted to the Joint Board for review on October 15, 1982. The Joint Board will convene on November 10 to act on that proposed order. Once the content of the proposed order becomes public, we can inform the Senate of the statistical impact on Alaska of the alternative cost separation/allocation methods proposed.

The statistics we presented at the August hearing demonstrate a potential shifting in costs which would create 50 to 450 percent increases in local rates. The areas most severely impacted are those in rural Alaska. The need to collect residential local rates of $70 to $100 per month will severely threaten the continuation or extension of service into these areas. It is critical that some provision be made to ease the rate burden in high cost areas.

An extraordinary amount of time has been devoted to the determination of a cost separations procedure by the Joint Board. A substantial increase in rates is likely because of the shifting to intrastate of cost assignments previously recovered on an interstate level. However, that is only the beginning of the potential rate increases. For although CC Docket No. 80–286 will determine the costs to be recovered through interstate versus intrastate rates, the method of recovering the interstate revenue requirement is currently being determined by the FCC in CC Docket No. 78–72.

The current developments in the "access charge" docket have moved at an alarming speed. On June 4, 1982, the FCC released its Fourth Supplemental Notice of Inquiry and Proposed Rulemaking in that docket, describing four potential plans for recouping the interstate revenue requirement. Responses to the proposals were due August 6, 1982, with replies to comments due September 15, 1982. Very few states were able to respond adequately in the time allotted. We are still unable to assess the impact of the alternative proposals on our rates in Alaska. There is a very wide range of potential results since the alternative rate designs can involve recovery of costs on a minutes of use basis, a per loop basis, or some combination thereof. In addition, the aggregation of the access charge is a variable, and the possibilities range from required collection of interstate costs on an individual telephone exchange basis to nationwide averaging. The burden of any trend toward deaveraging will fall heavily on small users in high cost, rural areas. The FCC has stated its determination to make its decision in 78–72 in December of this year, despite pleas of various states and NARUC either to delay its decision on access until the cost separations decision is made or to set up a federal-state joint board to assess the impact of the alternative access charge arrangements.

The current trend in FCC rulemakings is deregulation of various components and services, direct allocation of costs, and early recovery of costs. All of these decisions lead to higher local rates and while thus far the impact of each individually would not seriously threaten continuation or extension of service, the combined effect of the many accounting decisions made and the potential decisions in Dockets 80–286 and 78–72 is catastrophic.

The FCC is repeatedly stressing the importance of "economic efficiency" and "equity between services" without taking an in-depth look at the consequences of its actions on the policy of adequate extension and quality of service. Its decisions have reached a point where the provision of telephone service may halt for several years in many rural areas, most notably in Alaska.

A very appropriate summary statement was recently made by the United States House Committee on Government Operations in its Forty-third Report:

It took many years of hard work to bring rural areas into the communications network. It is a job that today remains unfinished [75] and, unfortunately, one that is further threatened by the actions of the federal agency charged with the responsibility of protecting and promoting the future of that network. It is time to analyze the effort to restructure the United States domestic telephone network to guarantee the continuation of universal telephone service to the majority of U.S. residents at reasonable rates.

Senator STEVENS. We now have Dr. Jay Barton.

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[75] It is estimated that as much as 8–15 percent of all residences in REA telephone service areas are without telephone service. (Telecommunications at 731–2.)

We are going to go into panels, so I hope you do not mind too much.

Dr. Jay Barton and Marylynn Scott, assistant superintendent of the Anchorage School District.

Go ahead, Jay.

STATEMENT OF DR. JAY BARTON, PRESIDENT, UNIVERSITY OF ALASKA

Dr. BARTON. Thank you.

Good morning, Senator. Thank you for the opportunity of participating today.

I would like to add a few short comments in support of the position that Governor Hammond expressed. It is hard for me to advise you on the technical aspects of the communications.

Senator STEVENS. Right.

Dr. BARTON. But I can share with you some of the concerns I have that we should take into account before moving into deregulation so we do not jeopardize universal service for Alaska.

Increasingly we are coming to recognize that our postindustrial society is indeed a knowledge society. In fact, Peter Drucker and John Galbraith and others have said this is the age where knowledge is the limiting factor in production, and it is education that is the central capital investment and infrastructure of a knowledge society, and it is the flow of knowledge and information that keeps our modern economy functioning.

One of our previous speakers spoke of the vast distance of Alaska. I heard from a reliable source the other day, Senator, that when the tide goes out in Alaska, the new land exposed is greater than the whole State of Texas. It is a pretty big State and it is also very thinly populated. In the upcoming season, if the National Football League does not go on strike, more people will be attending national football games around the Nation than there are in the entire State of Alaska, and yet this thinly-populated State requires the highest technologies to provide an adequate flow of information across the State.

The university is using modern educational technology to bring increased knowledge and increased participation in our society to all of Alaska, rural and urban alike. We are learning how to move words and ideas rather than the people. The citizens of Alaska in pursuit of knowledge are massive users of telephone communication systems.

I have submitted some written testimony, and I can summarize that very briefly rather than read it all to you.

We have established a computer network, the UNET, that permits students and scientists throughout the State to process information, to move knowledge from one part of the State to another, to facilitate learning and create new knowledge. This stretches from Nome to Ketchikan, from Kodiak to Fairbanks, from Bethel to Juneau. In terms of distance covered, it is the largest computer network in America.

We have also developed in cooperation with the State of Alaska and the Department of Education a very sophisticated telecommunications network called Learn/Alaska Network. Using a host of

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high technologies, we can bring learning opportunities to thousands of Alaskans. We can help people in our small rural schools to gain the best education possible, to have contact with the best teachers possible. I am a great believer in what high technology can do in education. We can do all sorts of interesting things in compressing and expanding time and providing opportunities for people that they could never have in the real time classroom.

We have an audio network that goes with the television. This last year with 141 conference sites in 90 Alaskan communities, we were reaching potentially more than 300,000 Alaskans. This year we hope to extend the audio network to 46 more communities. Last year we had 6,600 hours of teleconferences, and that included the delivery of 35 courses in the first semester and 50 in the second. This fall 94 courses are scheduled, about 9,000 hours of teleconference. I stress the audio part because of its immediate and obvious relationship to the telephone system.

Two technologies that we are dealing with today, the microchip and satellite telecommunications, are converging on knowledge and learning. They are both the product of the knowledge society and the stimulus to its continued growth, and I believe here in Alaska there are no alternatives. The universal telephone service and universal communication is critically necessary for the development of our Alaskan society.

Along with Governor Hammond, I believe the principles upon which we built the telephone communication system in the lower 48 are still valid. The averaging of costs in order to provide reasonable service at reasonable expense to as many people as possible is made even easier by our modern technologies. Satellite communication is essentially distance insensitive.

I hope that the guidelines on which the development of our communication systems have rested will be maintained as you consider deregulation of the communication industry. Our knowlege society depends on it.

I would be pleased to make available to you and your committee staff our telecommunications specialists in the university and our engineers and scientists that might offer some technical advice and consultation as you consider deregulation.

Senator STEVENS. Do you get any help from NTIA as you develop these educational services?

Dr. BARTON. A good deal of help. I have met with them on committee panels across the Nation. They have provided information and background, in some cases funds for equipment.

Senator STEVENS. I am intrigued by that last comment of yours, Dr. Barton. You have sort of—well, you hope that the basic guidelines on which development of our communications systems have rested will be maintained as we consider deregulation.

What do you mean by that?

Dr. BARTON. In so many cases as we build the telephone systems and communications systems in the Nation, we try deliberately to plan so that everyone has access to them. The hypothesis is that if we can provide a way in which everybody can have access to communications, then the whole Nation benefits, and by averaging costs aross the entire Nation, then we benefit all the Nation, even

though somebody may be paying more than their particular cost-accountable share.

Senator STEVENS. And you have a fear that that is not going to persist and the averaging system is not going to survive deregulation?

Dr. BARTON. We have a hard time figuring out how we can teach rural Alaska via telecommunications if the cost of telephone service and the cost of communication services are literally costed at Bethel or Port Yukon or many of our small communities and villages that are really heavy users of telecommunications.

Senator STEVENS. Are you using the public broadcasting, public radio, and public television in connection with your educational system?

Dr. BARTON. Our Learn/Alaska Network is broadcast from the public broadcasting stations in Alaska, those that are managed by the Alaska Public Broadcasting Co. agency and from KUAC that is owned and operated by the University of Alaska. We also use low-power transmitters, cable companies, and the bicycling of tapes from one company to another, so that almost all the means of communications are used. It is not just the public broadcasting schedule but many hours of instructional time, especially for the elementary and secondary schools each day of the week.

Senator STEVENS. I appreciate your assistance.

We want to have a broadcast panel now—broadcasters Augie Hiebert and Roy Robinson—Augie Hiebert of Northern Television, and Roy Robinson of KFQD.

STATEMENTS OF AUGIE HIEBERT, CHAIRMAN, NORTHERN TELEVISION, INC., AND ROY ROBINSON, PRESIDENT, KFQD

Mr. HIEBERT. Larger than most nations, one-fifth the size of the southern 48 States, these are familiar descriptions of the State of Alaska.

Situated in the Arctic, Alaska's size creates just one of many problems and challenges to broadcasters. Alaska's high mountain ranges, sparse and scattered population, hostile climate, great distances between urban and rural areas, and difficult accessibility from one geographic region to another all contribute to the unique conditions we face as we attempt to cope with these arctic conditions and improve on service throughout the entire State.

Fortunately for Alaska, the rapid improvement of global communications via geostationary satellites finally made it possible for Alaskans to communicate with each other and the rest of the world.

First, I would like to compliment the Federal Communications Commission for their understanding of Alaska's unique problems and requirements in the radio and television broadcasting field. Traditionally they have listened carefully as broadcasters explained Alaskan technical problems, and time after time have issued special waivers that allowed us to accomplish our objectives by overcoming limitations in rules and regulations that apply in the south 48 but not in Alaska. The FCC is considerate, their limitations regarding rules and regulations disriminatory to Alaska inevitably are budgetary.

Several examples: The Anchorage FCC Monitoring Station. This station is vital to the safety and welfare of commercial flying over the North Pacific region as well as for ships at sea in those waters who might be in distress. Their direction-finding equipment in such cases would triangulate the location of a distress call, coordinating with the Hawaiian and west coast monitoring stations, to get an accurate fix on the aircraft or ship in danger. Further, with the rapidly proliferating use of all kinds of communications equipment and operators of such equipment in Alaska, it is essential to keep an electronics "traffic cop" in our State to avoid chaos and abuse to the orderly operation and growth of transmission facilities of all kinds. The Anchorage Monitoring Station has been hanging on for dear life after the FCC field office budget was slashed. Hopefully the U.S. Congress will insist on continued funding for this vital operation.

Since the mid-1940's, the FCC has periodically attempted to solve their standard broadcast clear channel docket No. 20642. Because of Alaska's vast size and great distance from the south 48 States, Alaskan broadcasters who are interested in providing interference-free service to those living in remote places have petitioned the FCC time after time to make provisions for clear channel allocations that would reuse this precious broadcast resource and at the same time would not interfere with the original stateside stations occupying numerous clear channels exclusively for many years.

This Alaskan need is not limited to commercial broadcast stations. An equal number of State-funded public stations occupy clear channels as well and need the same opportunity to serve and the same interference-free protection as do commercial clear-channel broadcasters. Fortunately, the FCC recognized this need and in the language of their final "Clear Channel Report and Order" of May 1980, made it possible for Alaskan broadcasters to provide coverage without some of the prior limitations in FCC technical rules and regulations existent for several decades.

However, the FCC "Clear Channel Report and Order" language also included the admission that they could not solve the centerpiece of the problem, different transmission propagation conditions in the Arctic than exist at mid-America latitudes, and they acknowledged that a special study was necessary to completely address and correct this problem.

The FCC had tried in 1977, and for 3 successive years, to acquire an annual research allocation to make such a study, but were refused these funds. In 1980, through the efforts of Alaska's Senator Stevens and the State of Alaska Public Broadcasting Commission, a 1-year study was funded with $146,000 in Federal and $10,000 in State funds. It began in October 1981 through a contract with the Geophysical Institute/University of Alaska. With the receiving and recording equipment acquired and in place, there is now an annual operating requirement of approximately only $50,000 to keep the study going for 3 more years. Recommendations are to get $45,000 from Federal and $5,000 from State sources annually. This will continue this research for a period of time to cover about one-half of the 11-year solar eruption cycle which causes the drastic changes in Arctic transmission conditions on a cyclic basis. A further benefit from this research is the development of ground conductivity in-

formation which Alaskan broadcasters have never been privileged to benefit from, although such data has been available to south 48 broadcasters for 50 years or so. A further and potentially very significant added benefit is the monitoring and data collecting aspects of standard broadcast transmissions from foreign countries to the West.

The Canadian Government has announced their intention to abrogate a former international treaty which mutually protected their assigned clear channel and the United States and Mexican clear channel stations. Canada has had about one-third the number of these assignments compared to the United States, which has been consistent with the differential in population.

What Canada has officially announced is to occupy the 25 American clear channels with high-powered broadcast stations. They have published a list of proposed station locations, and in the 4 Western Provinces alone have listed more than 70 such stations which would create severe interference to existing Alaskan broadcasters, both public and commercial, and would preempt future allocations as the State grows and additional coverage is needed. At the present time, bilateral discussions and negotiations are being held by Canadian and United States Communications Commission and State Department representatives.

The U.S. Congress currently is visibly preoccupied with the problem of Cuban interference to Southern States' radio stations which bothers relatively few broadcasters. It is urged that Congress turn its attention to the North where potentially 25 formerly protected clear channels will be destroyed for present and future use in Alaska. The danger here is that the Canadians will use highly directional antennas, transmitting superpower to the North, in order to protect their own adjacent provincial stations as well as the existent South 48 stations. Alaskan rural coverage will be obliterated.

My study of what the Canadians intend to do indicates their redundant demands on all U.S. clear channels is not necessary. They have abundant channels for serving their urban and rural needs right now. They are attempting a ridiculous overkill of spectrum allocations in their favor. This is an extremely serious problem that needs immediate attention and opposition by the U.S. Congress.

In regard to research of propagation conditions relating to intercepting foreign broadcasts, Alaska has been traditionally "the forgotten nation" when it comes to opportunities along these lines. The U.S. Government spends millions of dollars in foreign countries with monitoring facilities to listen to domestic broadcasts, and other transmissions, of neighboring foreign governments. Alaska is much closer to some of our unfriendlies than other places, but so far the U.S. Government has failed to grasp the potential of such an eavesdropping opportunity.

Conversely, Alaska could also be a very effective platform to transmit to foreign target countries with Radio Free Europe or Voice of America programing. A religious group is about to begin such high-power shortwave transmission from the Kenai Peninsula. Perhaps their leadership and effectiveness can be observed and lessons learned.

From the television broadcasting point of view, Alaskan owners and operators have had sufficient support over the years from the FCC in recognizing the geographical limitations of our coverage. They provided necessary waivers to allow the use of tape-delayed programing on mini-TV transmitters, now known as low-power television, first in the early 1970's to remote Native villages through the Alaska Public Broadcasting Commission, next to remote construction camps along the route of the Alaska oil pipeline during the midseventies, and more recently a system of low-power transmitters in dozens and dozens of Native villages with transmission by satellite from an Anchorage tape delay center funded by the State.

Alaskan TV broadcasters and the Alaskan public are appreciative of the insight and understanding shown by the FCC in this innovative and pioneering approach which was a classic example of working together in the public interest.

The recommendation of Alaskan TV broacasters in regard to the proliferation and growth of the cable TV industry is that continued congressional support must be given to the "must carry" rule now in existence. This rule, requiring that cable systems carry all local TV stations, is essential for the continued health of not only the free public and commercial TV broadcasting industry but in the public interest as well.

Alaskan communications have improved dramatically particularly during the past 25 to 30 years. We can communicate with each other and serve the public in ways undreamed of only 30 years or so ago. It should be recognized and appreciated that the dedicated efforts of industry, working with Federal and State governments, have made this an accomplished reality.

It has been difficult at times to convey Alaskan communications needs to Government entities. A great deal of credit must be given to Alaska's congressional delegation, especially to Senator Stevens and his staff who have always been close to and worked for the improvement in Alaskan communications. Alaska has caught up to the communications technological power curve at this point in our history, and we are now in a position, with continued understanding and assistance from Washington and Juneau, to forge ahead into a leadership position.

Thank you for your interest.

I have attached as an exhibit a news clip about Kenai Peninsula shortwave transmitter.

[The article follows:]

[From the Anchorage Times, July 24, 1982]

SHORT WAVE TRANSMITTER APPROVED

The Kenai Peninsula Borough Planning Commission has given final approval for construction of a 100,000-watt short wave transmitter in Anchor Point which will broadcast educational and religious programs to China, and Soviet Union and other communist nations.

The planning commission last week upheld an earlier decision to approve construction of the transmitter by World Christian Broadcasting Corporation, a private, non-profit corporation with headquarters in Abilene, Texas.

Programs will be produced in the Lower 48 in a variety of languages and dialects and will be beamed to communist nations via the station's high-power transmitter.

Final approval for the station had been delayed last fall after a number of Anchor Point residents protested the construction. Some residents testified that they hadn't had adequate notice of a hearing on World Broadcasting's plans, while others said they feared that harmful radiation might be emitted or that the radio signal would cause radio and television interference.

The planning commission gave final approval on the grounds that both the Federal Communications Commission and the Environmental Protection Agency said the plan was safe.

The $1.7 million station will built on a 71-acre site about five miles southeast of Anchor Point.

Construction work is scheduled to begin this year, and World Broadcasting officials hope to have the station on the air by late 1983.

Senator STEVENS. Would you make your statement now, and then we will comment on both of them.

Mr. ROBINSON. First of all, I want to thank you for inviting us to participate in this hearing.

There are circumstances in Alaska which in many instances operate to reduce effectiveness, for reasons beyond the broadcaster's control, of their affirmative action effort.

In the major cities of Alaska, the minority job force is small, and when a station operates with 15, 20, or 25 people, as many do, one minority employee can make the difference between operating at parity with the work force and the FCC's minimum-processing quotas, or in turn, operating in compliance with the FCC's processing quotas and having no minority employment at all.

As for stations in Alaskan bush communities, the situation is frequently the reverse. Where there is a substantial Eskimo, Indian, or Aleut population which continues to enjoy the benefits of their interesting and nomadic lifestyle, moving frequently to take advantage of hunting, fishing, weather, or other environmental considerations, the challenge to the local broadcaster is great. The broadcaster must find employees that are willing to stay long enough to be trained. This is difficult, and it is also difficult to find people that have basic educational qualifications, because what we consider to be basic educational qualifications are frequently different than the native Alaskan's criteria.

It is also a problem to find people that are willing to stay long enough. After they have been trained, given the benefits, they continue their nomadic lifestyle or they become assimilated in our culture, being attracted to big city stations that can afford to pay more. Conversely, stations in the bush have a great deal of difficulty in attracting qualified trainees to come from bigger cities because of the environment and the remoteness involved. It is frequently beyond the financial capabilities of the remote bush stations to pay enough to attract qualified broadcasters and technicians, but even if they could pay enough to make it attractive financially, many qualified people simply do not want to live in those remote communities subject to isolation and geographic and climatic extremes.

So although a remote bush community may have a large minority employment profile, the practical circumstances unique to Alaska, may make it extremely difficult no matter what level of affirmative action effort for the broadcaster to find even a pool from amongst which qualified applicants could be trained and accordingly make it that much more difficult for the Alaskan broadcaster, especially in remote communities, to comply with the statistical

quotas the FCC has set forth regardless of the broadcasters' level of effort in affirmative action programs.

I would like to talk about the fairness doctrine a bit. In many Alaskan communities, the local radio station is frequently the only source of current news and information, which imposes on local broadcasters a much stronger practical obligation to go out of their way to be fair in the presentation of controversial issues of public importance, regardless of the fairness doctrine, because of the practicality of the situation that literally says the broadcasters cannot afford to be unfair in the eyes of any meaningful segment of the community.

Beyond this, the Congress should be aware that many issues of importance to the population of the lower 48 are also of importance to the population of specific towns in Alaska, but for different reasons. The use of Alaska lands as a national natural resource, 80 percent of Alaska is public land, the location of the Alaska oil pipeline, the cost involved in providing adequate safety measures for oil and gas exploration, to preserve the environment, are issues of importance in one sense as a cost of energy to people in the lower 48, for example, but to the people of Alaska who for centuries have lived on or used that land that is being taken for Federal use or reserved for Federal uses, it is an intensely local issue for which there is frequently a unanimity of opinion or viewpoint, strongly held opinion and viewpoint in the local community.

The local broadcaster, under current statute, indeed has an obligation to present contrasting viewpoints of controversial issues of public importance, but the Congress should be aware that the availability of people willing and able to present contrasting views, views contrasting from those held by the community, is often sharply limited by distance and availability of material, and that in some cases the broadcaster, unable to get someone to come and present that view, is put in the position of producing a program designed to prevent that view with additional cost.

That local broadcaster is also put in a position to be scorned by nearly all of the local community not because the broadcaster is taking action logic dictates, but because of an archaic statute. In larger Alaskan communities, as well as outside, where there is a proliferation of broadcast signals, the need for the fairness doctrine is even less apparent. The fairness doctrine should be dropped as a statute as soon as possible.

As far as lotteries are concerned, obviously in Alaska we have a lot of fish, and once each year most of the coastal communities have some type of a fishing derby to celebrate and raise money for community projects. Alaska broadcast stations in each one of those communities for many years were a part of these fishing derbies. Now, because of FCC lottery laws, rules or regulations, broadcast stations cannot be involved in the derby unless all of the money collected after expenses is given back in prizes or otherwise used up in running the derby. If the community wants to build a park with the profits or use it in any other type of benevolent endeavor, the broadcast station cannot be involved in any way. The local newspaper, of course, has no such restrictions. Try to explain that rationale to the people of Seward or Valdez or Nome. In States like New Jersey, broadcast stations may promote gambling but commu-

nity-run, fishing derbies to raise money to benefit the community are a definite no, and here in Alaska, the fishing derby is an important part of life in many communities.

Broadcast stations should have no Government censorship on program content, whether news or entertainment, the least being a fishing derby.

I briefly want to touch on a couple technical things, basically giving that to Augie, however.

Because Alaska is such a distance from the lower 48, there should be no problem for Alaska stations protecting frequencies 1,500 to 2,000 miles away while broadcasting 10,000, 20,000 or even 50,000 watts, but there is. Five kilowatt class III AM stations in Alaska are regulated with the same technical rules as stations in the lower 48. There is no technical reason why a station in Anchorage protecting a station in Kamloops, British Columbia, could not at least go to 10,000 watts day and night and should be allowed 50,000 at least in the daytime.

In this vein, I would like to for the record, on behalf of Alaska broadcasters, thank your Senator Ted Stevens for recognizing the need for new propagation studies for Alaska and finding the money so the Geophysical Institute conductivity tests can continue to be made. There are other technical concerns held by broadcasters in Alaska, and my fellow broadcaster, Mr. Hiebert, will address those in his testimony.

My final subject is not unique to Alaska, but we Alaskan broadcasters feel very strongly about it, and once or twice each year or two we are abruptly reminded of it, and that is the equal time rule.

In the primary election just completed in Alaska there were 10 legal candidates for Governor. Every broadcaster knew there were only five candidates that would be seriously considered, and sure enough, 50 percent of the candidates received over 95 percent of the vote. Most broadcasters also know that a healthy confrontation or debate between political adversaries is good programing, but because there could be no confrontation, no debate, between serious contenders on radio or TV without the other candidates present, very few confrontations, if any, were broadcast.

The station I represent offered 1 hour of free time to each candidate, including the lesser candidates. One of these lesser candidate's major concerns was the "emaciated virgin girls of India," his exact words. He said he knew about them because all the pictures he had seen of India were of very skinny, young girls, and that Alaska should send all of our extra protein to them. He spent a good deal of time on this problem, and when his time was up and the show off the air, he would not leave the station. So state troopers were called, and they hauled him off.

Naturally, every lesser candidate was not like him, but I tell the story to show you that had not the equal time rule been a statute, he would not have been invited to waste our time and the listeners' time. The equal time rule causes stations to program not to the best of their ability, and in the long run it is the people who are short changed. The equal time rule should also be rescinded.

Thank you.

Senator STEVENS. Thank you.

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Does either of you know something I do not know about the FCC's indication that the Anchorage station would be abandoned, that monitoring station?

Mr. HIEBERT. I keep reading sermons in the broadcasting that it is on the list to go. Whether they have anything that they know more than anybody else, I do not know. They were originally on the list to go, and you called that at one time. That was about a year ago.

Senator STEVENS. Our committee demanded to put more emphasis on their field operations and the impression that they were not considering any longer the closure of the FCC.

Mr. HIEBERT. That is good news. We have not heard that up here.

Senator STEVENS. Well, Mark Schnieder points out to me we will have to see if we can get a little more money again. I do not think there is any great problem about that unless there is something that you know that I do not know.

Mr. HIEBERT. No, except that they were destined to be closed at one time.

Mr. ROBINSON. We were told they were going to be closed.

Mr. HIEBERT. It was on the list that was published that they were going to be closed.

Senator STEVENS. I think the committee is really sympathetic about this equal time and fairness law, but what really is the answer is to assure that if we repealed them there will not be free time being made available, to one side.

What is the answer to that?

Mr. ROBINSON. I wish I knew the answer, but I would think that the marketplace itself would handle that. We have newspapers that allow all of the people to be on in the newspaper. They write stories about each and every candidate. I think that radio and TV stations would do that also, but I think where we had 10 candidates for Governor and you knew that 3 or 4 of them were the only one that were going to get any votes at all and you did not want to do anything because you were going to have to lock up, say, 10 hours of broadcast time putting people on that did not make any sense and that it cannot help benefit the people, the listeners, if you did not have to do that.

I think the stations themselves would handle that very well. I do not know about the networks, you do not regulate the networks, but I would assume that each station in that network would have to look to their own license. They still have to operate in the need and necessity of the people.

Mr. HIEBERT. I might add, one example of how that has happened in the past is when Presidential debates occurred on the networks in several past national broadcasts, the doctrine was waived. Otherwise you would have enough different exhibitionists who wanted to appear nationally, there never would have been a national debate, for example, between Nixon and Kennedy and others to follow.

I think Roy mentioned that the marketplace will take care of it. It is another example, too, that I think any station that would waive its ability to take in revenue from politicians from one party versus another party would think twice before doing it just for

plain economic reasons, and I think broadcasters are more responsible when they recognize reliable parties. In any event, I do not think broadcasters would do that.

Senator STEVENS. One of the ways around it, as I recall, is that the League of Women Voters bought time, and had a fundraising program to pay for that time, and they invited the candidates. Is there not a way for organizations like that to, in effect, provide a mechanism that eliminates the burden of equal time loss as far as the medium is concerned?

Mr. ROBINSON. No, Mr. Chairman, when a candidate appears on the air, other than in a news program, if it is a definite news program, they have said that those type things are not a definite news program. When they appear on the air you are under equal time, you cannot edit what they say, and you have to afford equal time for the same amount of money to anybody running against that person.

Senator STEVENS. What about the question of content? If the equal time and fairness doctrines are eliminated, should the content of political advertising be subject to review by the individual stations?

Mr. ROBINSON. I should think so. We are really put in a precarious situation, as the one in the South where the fellow came on swearing and all that. You are all familiar with that, when someone comes on the air and he is a candidate and he actually slanders some other candidate, we are not responsible. We are held away from that, but the listener does not know that. You would have to broadcast before and after each one of those, which in effect edits the material. You would have to broadcast before and after and say we are not responsible for what this fellow says or what this lady says, and I think with normal—well, even above normal and intelligent people in broadcasting, and I would think that we would be able to handle things like that very well. It really is a problem that we cannot say, well, you cannot say that, you cannot swear on our air. Our listeners will not stand for it. Of course, I do not like—elect the guy, but that does not make any difference. They still hear it.

Senator STEVENS. What about the political advertising in terms of—well, we have been talking basically about free time.

Mr. ROBINSON. I am talking about paid and free time.

Senator STEVENS. Paid, too?

Mr. ROBINSON. Yes.

Senator STEVENS. You have no control over the content of paid advertising?

Mr. ROBINSON. Sure we do, we have a lot of control over that. We all have different ideas as to what is moral and what is not, and we will not allow somebody to go on the air and say J. C. Penney—well, they would not, of course, want to go on the air and swear. We do not allow them to do that or say something that was immoral, we would not allow them to. But when a candidate does, we cannot do anything about that because we cannot edit it.

Senator STEVENS. That is what I am getting at. I am talking about political advertising.

Mr. ROBINSON. Well, you said advertising.

Senator STEVENS. Paid political advertising, you still do not have any control over the content of that.

Mr. ROBINSON. No.

Senator STEVENS. Do you think you should?

Mr. ROBINSON. Oh, yes.

Senator STEVENS. Do you agree, Augie?

Mr. HIEBERT. I think we should have the right to decide whether it is obscene, not in the public taste and libelous or slanderous, and I do not think we should have anything to say about political doctrine.

Mr. ROBINSON. I would have to agree with that.

Senator STEVENS. That is a nice, fine line, but I am inclined to agree with you. I was asked by one of the newspaper people about one of the ads in our recent election, and apparently it was, as you know, quite controversial, and why did we not do something about that on the air immediately. A simple answer is the law would have to be changed to give you the power to have any way to refuse that advertising as I understand it.

Now, what about the Canadian problem?

You mentioned, Augie, as terms of the potential interference from the Canadian claim those parts of the spectrum which would seriously interfere with us up here. I had the impression that had been worked out after we discussed it.

Have you any indications now that that threat is renewed?

Mr. HIEBERT. The indication you had that the condition was a letter from the FCC, and a letter from the State Department stating they are going to protect Alaskan interest. We have not seen any evidence that they are.

The bilateral discussions are still going on between the American FCC and the Canadian counterpart FCC, as well as the State Department representative, and they do not expect that to be resolved for another year. And it would be resolved in terms of a compromise and whatever they call their method of deciding whether American airways are going to encroach on it or not.

The last I have is what they published, and this was in April, that shows where—and just taking the Western Provinces, their transmissions could bother Alaska. Taking those 4, as I mentioned in my testimony, there are 70 plus stations, and some of them, in 1 or 2 cases in the 4 Provinces, there are 3 stations that will be applied for, 1 50,000-watt station and 2 10,000-watt stations in adjacent Provinces, which means that there is a danger that they will interfere with each other in Canada.

And that is why—well, they cannot interfere because of previous occupancy of American clearances by statewide stations. They will have to put in a directional antenna that will go north because it cannot go south, and to protect American stations it cannot go east and west because it will interfere with their own desires in their adjacent Provinces. So a sharply directional northern antenna is going to wipe Alaska out.

I have a great deal of apprehension about the FCC's ability to withstand a very determined effort by the Canadians. Until I see it in writing, I will not believe it. But I think the main thrust of that discussion has to do, in every magazine you read, has to do with broadcasting, and Congress is very interested in the human prob-

lem. That has nothing to do with how many channels are going to jeopardize Alaska at all. Nothing is ever said about protection of Alaskan stations.

Of course, there is a two-part part of the Cuban problem. The Government wants to put in broadcast stations to transmit to Cuba, too, so it is a two-way threat. They do it to us and we do it to them. But we have a more unfriendly neighbor to our south from here and north from the United States in terms of potential problem to Alaskan rural coverage.

They are not going to bother anybody in town here, but the people that live way out there that we are trying to cover with clear channel stations traditionally have protected coverage to far out into the rural areas even though there are not many people there, and they should be protected from interference from another place.

I can give you a classic example of how this works. Our station in Fairbanks has been on a Mexican clear channel, 900 kilowatts. There is a Victoria, British Columbia, station on that same channel with only 10,000 watts of power but a northern directional antenna. That northern directional antenna puts an equivalent of 25,000 to 30,000 watts north, and it wipes out our secondary coverage. That is why we moved from that channel, we had to move to another channel, to an American clear channel that we thought because of the FCC's decision in 1980 would be protected. Now we find the Canadians are going to wipe out American clear channels, too. It is a very serious problem not only for commercial stations, but for public stations, and it is not over by any means.

Senator STEVENS. What about the must-carry rule? We have a bill that is supposed to make sure that it is not altered, but how important is that as far as cable operation is concerned in Alaska?

Mr. HIEBERT. It is very important for this reason, and I hope that requirement stays in all of the congressional bills that come downstream The reason it is important is when you hook a TV set to a cable, you have put a signal cable that carries many signals into your set. Once that is hooked up, then you do not ordinarily use your rabbit ears or your outside antenna. That means you are limited to the cable system to collect the TV sets, and ordinarily this gives you a better picture at your set than an off-the-air picture you can get from local stations. But if you would eliminate the must carry so that the carry systems, in order to add more revenue, add programing to their offering to the home would not have to carry the local stations, and you hooked a cable to your set and you would not be able to pick up the local stations with equal quality.

First of all, you would have to put in a switch at the back of your set to switch from the cable to an outside antenna or to a rabbit ear, and that is going to be a technical problem because a lot of people will not understand how to do that, and probably will not do it. So the local stations will be discriminated against by the cable services. We do not have any quarrel with the cable services at all as long as the local stations, both public and commercial, are not taken out of the system, because by being put in the system, a bare signal is delivered to the set and you do not have to fiddle around

with an external switch in the back of your set. It is very important.

Senator STEVENS. I appreciate your helping us get that record and the fact that you have taken the time to be with us today.

Thank you.

We will take about a 5-minute break here.

[Recess.]

Senator STEVENS. We will proceed now with the statement of Mr. Walp and Mr. Davis.

Again, just in order to try to get some of the questions that might be answered from the same group, we will proceed in panels like this.

Mr. Walp, will you proceed first?

STATEMENTS OF ROBERT WALP, PRESIDENT, GENERAL COMMUNICATION INC.; AND ROGER DAVIS, PRESIDENT, EXECUTONE ALASKA; ACCOMPANIED BY RONALD DUNCAN

Mr. WALP. Thank you, Mr. Chairman.

I have invited my executive VP to sit up here with me. He has much greater detailed knowledge on some of these issues than I and may be better able to handle some of the questions.

We certainly appreciate your interest, Mr. Chairman, and that of the subcommittee, in the Pacific Alaska situation. I would say that there seems to be somewhat of a consensus that legislation is certainly needed to take care of some of the problems that are not addressed in the antitrust suit and Judge Greene's decisions. I would not necessarily agree that the competition is the cause of any threatened increases in rates for communication services at this point.

Our company, General Communication, Inc., or GCI, is a common carrier authorized by the FCC to provide telecommunications services in the Alaska market. We are the first firm of this type to offer long lines voice and data communications as a competitive alternative to the existing monopoly carrier in Alaska. We are now constructing our system and will initiate service before the end of 1982.

Telecommunications in Alaska is definitely burdened by higher costs, partially because of the need to serve small communities in rural areas, but also due to the generally high cost of doing business in Alaska. This includes higher salaries, higher transportation costs and the greater length of haul for telecommunications traffic to and from and within Alaska. Even with substantial support from the system of interstate settlements, Alaska's interstate rates are higher than elsewhere in the United States. Intrastate rates are roughly 80 percent higher than the interstate rates, and local exchange rates are also higher than the national norm.

The changing structure of telecommunications in the United States has created a need for replacement of the system of separations and settlements which has played an important part in implementing the universal service mandate of the original Communications Act. In fact, the recent consent decree in the AT&T antitrust suit mandates these changes for a substantial portion of the industry.

The requirement to change existing systems to deal with the altered structure of the industry does not in any way mean that the goal of universal service must be abandoned. New mechanisms can be created which will foster both the nationally recognized benefits of competition and universal basic telephone service at affordable rates.

The FCC is developing procedures that will be used to implement national communication policy for the next decade. Because the Commission is under considerable pressure to provide a workable mechanism for the major carriers and exchange companies which, in economic terms, represent the vast majority of the industry, there is a danger that it will neglect the impact of its action in extreme economic situations typical of those in Alaska.

Although a higher proportion of Alaska's residents are on the far end of the continuum from rural to urban telecommunications services, Alaska is not totally unique, and policy should not discriminate against it and other highly rural environments. Alaska is 1 of the 50 United States, and as such, is entitled to equal treatment. Alaskans, as all other residents of this country, must be able to procure adequate telecommunications services at affordable rates while at the same time enjoying the benefits of new and alternative services, technological innovation, and increased efficiency that a competitive telecommunications industry provides.

Unfortunately, because of the urgent need for a revised structure satisfying the major portion of the telecommunications industry, and because of statutory provisions of the existing Communications Act which are not fully appropriate to the existing environment, Alaska and other atypical areas are not likely to receive equitable treatment without specific legislation.

Specifically, without at least limited legislation, there are several consequences that may occur. We have five items listed here. First, it is likely that there will be no subsidy for high cost interexchange service. Some mechanism to defray the high cost of interexchange service is necessary for the development of universal basic service throughout Alaska. In docket 78–72, the FCC is moving rapidly to adopt an access charge mechanism which will replace separations and settlements. While it has indicated that the issue of high cost exchange service will be addressed, nowhere has it been said that any high cost factors would be applicable to interexchange service.

Without an interexchange subsidy mechanism, high cost routes in rural Alaska may continue to suffer from high rates or a reduction of service. Only the Senate has recognized the requirement for support to high cost interexchange routes. In S. 898 this is achieved by including interexchange as a part of the definition of basic telephone service, thus making subsidy available to hold down both exchange and interexchange rates. Without such direction, it is unlikely that the FCC will adopt the required mechanism to support high cost rural interexchange routes.

Expansion of exchange service could be curtailed due to the absence of a specific cap, such as provided by the 110-percent rule, on local exchange rates. While the FCC says it will address the needs of high cost exchanges through a high cost factor, there is no guarantee that they will adopt any such support mechanism, or that it would be adequate to promote and maintain universal local ex-

change service. This is especially true in view of its stated belief that universal service almost already exists. Past experience with the FCC with the Alaska-Hawaii Joint Board indicates that the FCC questions its own authority to provide a subsidy even when clearly needed. Without a subsidy, Alaska exchange rates could climb, and further expansion of the system might be threatened.

Third, full introduction of new telecommunications services in Alaska could be delayed. Without congressional direction to the contrary, the FCC would probably continue its practice of delaying application of its procompetitive entry rulings to Alaska. Only when there has been firm opposition from a competitive applicant to Alascom's case-by-case objections has the Commission acted to allow entry. Usually it has deferred decisions regarding policy for Alaska.

The most recent case involves resale of MTX/WATS services where the FCC deregulated resellers throughout the United States and its offshore points with the specific exception of Alaska. The Commission's indecision on Alaska entry issues provides grounds for existing carriers to appeal its decisions when they do allow new technology and services in Alaska. An example is the digital termination service [DTS]. DTS is a new microwave radio service that allows more efficient and inexpensive delivery of data communications in local markets. Businesses in Anchorage would benefit substantially from this service. The FCC has decreed that DTS be available throughout the Nation on an open entry basis. Citing the indeterminant nature of the Commission's position on Alaskan entry, Alascom has sought judicial review of the FCC's DTS order because it does not exclude Alaska. Alascom has also filed a petition to deny GCI's DTS application on similar grounds.

Absence of a clear policy in favor of open entry in Alaska allows such actions which further delay the introduction of needed services and increase costs due to the expense of regulatory delay. Alaskans are the ultimate losers because they are denied the benefits of state-of-the-art technology that is available to all other citizens of this Nation.

Fourth, the existing disparity between intrastate and interstate rates will continue. Separate Federal and State regulations of interstate and intrastate interexchange rates has led to artificial price differences which the FCC is powerless to resolve. The magnitude of this disparity in Alaska is extreme. A call from Anchorage to Juneau costs substantially more than one from Anchorage to New York. Without corrective legislation, such disparities will continue. Subsidy mechanisms adopted by the FCC will apply only to the interstate portions of exchange and interexchange service and, therefore, will only partially subsidize basic telephone service.

Fifth, the existing legislative mandate for universal service will continue to be ignored and Alaska and other rural and remote areas will continue to have second class status in the national telecommunications system. The FCC apparently believes that it cannot apply a universal service directive unless it is accompanied by an explicit mechanism for implementation. An example can be found in the Commission's failure to require the satellites placed in the prime orbital arc provide coverage of Alaska, which denies the State an adequate supply and range of satellite services.

Alaska's needs could be adequately satisfied by concise legislation that would guarantee universal basic telephone service at rates not in excess of 110 percent of the national average rates for such service. The Congress must provide the FCC with explicit authority and direction to implement a subsidy mechanism which supports universally available basic service. As in S. 898, the definition of basic service should include interexchange services. In order to assure that rates for basic service are reasonable, a limit of 110 percent of the national average should be established.

Legislation is needed to provide a competitively neutral system of access charges, surcharges and service payments that effectively implement universal basic service. The Commission should be instructed to develop a system of surcharges on access charges to fund a national pool from which competitively neutral subsidy payments would be made to all carriers serving high cost areas. It is important that the required subsidy be competitively neutral in order to promote rather than impede development of alternative services. Appendix I to this testimony provides a further discussion of the criteria required for a competitively neutral subsidy.

Extend FCC jurisdiction to all interexchange service so that the access and surcharge mechanism designed to foster universal service is not limited to interstate interexchange service. Legislation should eliminate the regulation of interstate and intrastate services by separate jurisdictions by assigning regulation of interexchange services to the FCC, leaving local exchange regulation to the individual States. This will eliminate disparities between State and interstate rates and extend the benefits of competitive sources of supply to users within State boundaries. It further allows federally administered subsidies to be applied to State and interstate interexchange services in order to insure an affordable full range of basic telephone service.

Put Alaska on a full and equal footing with the other 49 States by providing for full and open competitive entry in Alaska. The Congress must make clear that its policy of free and open competition in the telecommunications industry applies equally to all of the States. This clear statement is needed to prevent the continued erection of artificial barriers to competitive entry and introduction of new services in Alaska. Currently these barriers cause potential entrants to waste substantial resources which could be more productively used to deliver new and improved services. They also delay the implementation of new technology.

Require domestic satellite systems to fully serve Alaska. Congress should direct the FCC to require domestic satellite owners who place satellites in the prime orbit arc to provide coverage of Alaska comparable to that afforded the other States.

Provide authority for FCC to deregulate competitive carriers that lack the ability to control prices in their markets. The FCC should be given explicit authority to deregulate when market conditions permit. Such authority should include a market power standard which allows the Commission to deregulate only those carriers who lack the ability to substantially control prices. Such a procedure will foster real competition while preserving regulation only where necessary to prevent market power abuses or to maintain or extend service.

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The needed legislation should be confined to broad principles in order to guide and formulate policy while leaving it to the Commission to work out the details.

Almost all of the above points were adequately and appropriately addressed in S. 898, as follows:

Section 103 defines basic telephone service to include both exchange and interexchange services.

Section 202(e) mandates that basic telephone service be available at reasonable rates. This section also specifies the use of surcharges on access charges in order to achieve that objective.

Section 222(i) establishes that the surcharges shall be applied to prevent rates from exceeding 110 percent of the national average for three classes of carriers, including those providing basic telephone service to, from, or within the State of Alaska.

Section 102(a) gives the Commission jurisdiction over all interexchange telecommunications. This will assure reasonable rates for intrastate as well as interstate toll service, thus facilitating the universal service mandate.

Section 214(e)(3)(A) states that "Any regulated or unregulated carrier shall have the right to provide interexchange service or facilities in Alaska." It is further stated that implementation of the legislation shall not result in unreasonable charges for nonbasic interexchange services in Alaska when reasonably required in the public interest. This section in its entirety supports competition and will hasten the introduction of new telecommunications services in Alaska.

Section 202(a) gives explicit authority for the Commission to deregulate telecommunications services.

Section 332 mandates that all satellites in the Western United States orbit arc, between 119° and 135°, shall provide essentially the same service to all 50 States. This guarantees that an adequate number of satellite transponders will be available for Alaska.

The procompetitive nature of S. 898 is elaborated upon in the report, No. 97-170, on S. 898 by this committee. A colloquy involving Senators Packwood and Stevens during the floor debate further emphasizes the intent of the Senate in this regard. These sentiments need to be similarly emphasized in new legislation.

Thus, in general, the concepts established in S. 898 and discussed above are well suited for the assurance of continued and progressive development of telecommunications in the State of Alaska, and limited legislation based upon these principles would meet Alaska's needs.

Last of all, S. 898 has covered most of these elements in a thorough and acceptable manner, and we have listed the specific section of S. 898 that seem to address our needs. And last of all, I would like to say that the competitive nature of S. 898 is elaborated upon in the report, and the S. 898 by this committee, the colloquy involving Senator Packwood's amendment further emphasizes the intent of the Senate in this regard. These sentiments need to be emphasized in new legislation.

Thank you very much for the time to make these comments.

[The appendix follows:]

APPENDIX I

THE EFFECT OF SUBSIDIES ON ALASKAN INTEREXCHANGE TELECOMMUNICATION SERVICES

Alaskan telecommunications pose a number of special problems due to the higher cost of both exchange and interexchange services in Alaska. While part of this Alaska cost differential is attributable to the provision of service to small, remote population centers in rural Alaska, the major portion of the difference is a result of the generally higher costs of doing business in Alaska; this includes substantially higher salaries which must be paid to attract Alaskan workers, higher transportation costs to and from the state because of its distance and isolation from the 48 contiguous states, and the greater average length of haul for telecommunication traffic to, from and within Alaska. These latter costs, of course, affect all Alaska telecommunication facilities and are the reason why the costs for both urban and rural telecommunications in Alaska exceed the average costs for comparable services in the rest of the United States.

In spite of substantial support from the system of interstate separations and settlements, current rates for telecommunication services to and from Alaska exceed 120 percent of the rates for equivalent service elsewhere in the United States. Intrastate rates which receive no support from the settlements pool are close to 80 percent greater than the interstate rates.

While an equitable subsidy mechanism which guarantees the continued existence of affordable interexchange telecommunication services throughout Alaska is both necessary and desirabie, it is likely that, over time, competition, through the introduction of more efficient systems and innovative technologies, will do more to reduce the price disparities faced by Alaska rate payers.

There is concern over certain proposals that have previously been advanced for subsidizing Alaska interexchange services because their effect could be to eliminate competition and create a permanent monopoly for the existing carrier. While implementation of any of these proposals would provide rate relief to Alaska consumers it would also deprive them of the benefits of innovative and alternative services and it would burden rate payers throughout the rest of the country with the excessive costs that inevitably arise from a system of rate base regulated monopoly.

Any subsidy mechanism providing payments to a single regulated interexchange carrier which enables that carrier, regardless of its costs, to reduce its prices to a level below its competitors' costs will foreclose competition in the subsidized markets. Unfortunately this is precisely the nature of some of the mechanisms that have been proposed for subsidizing interexchange service in Alaska.

It has already been noted that the costs for Alaska service exceed national average costs for comparable service. In this situation, if a single carrier is guaranteed a subsidy sufficient to allow it to price its services at a rate approximately equal to the national average, no competitive carrier will ever be able to survive in the market. In order for the competitive carrier to gain and/or maintain customers, it would have to sell its service at a price slightly below the national average while facing costs substantially in excess of the national average.

It might be possible for a competitor to survive briefly in the Alaska market by exploiting new technology to drive its costs below the national average. However, national average costs will not be static; competition with its attendant efficiencies and incentives for technological innovation is likely to drive real national average costs down. When this happens, the subsidized carrier would receive a larger subsidy enabling it to reduce prices and eliminate the marketing advantage of a more efficient competitor.

Additionally, the subsidized carrier would never have any incentive to be efficient or technologically innovative. Thus, although prices for the subsidized carrier's services would be statutorily maintained with some percentage of the national average, the total cost for such service would not be reduced to the minimum levels that could be obtained by a competitive market. In sum, such a mechanism would statutorily vest the subsidized carrier with a monopoly position and guarantee its rate of return through a public subsidy.

Subsidy mechanisms which propose to restrict or eliminate subsidies for routes or services where there are adequate competitive alternatives do not eliminate barriers to competitive entry either. Competitive telecommunications has developed through alternatives that were not fully equivalent to existing services. Typically these alternatives are priced lower and are in some ways inferior to the primary service; for example, competitive services usually do not have the same geographic range and are often more difficult to use due to requirement for special access codes, billing numbers, etc. Competitive service may, over time, develop into fully comparable al-

ternatives but this process can only occur through a gradual growth of the markets and the industry. If the initial monopoly provider of services in a market is subsidized to a degree that enable its more comprehensive offerings to be priced at or less than the cost of a competitor's alternatives, the competitive market will never have the chance to grow to the point where it is capable of providing fully comparable alternatives.

Limiting application of subsidies to remote and rural areas of Alaska may appear to be a simple solution, but it also creates inequities. First, such a limitation could cause charges for service to and from those areas to be less than the charges for services to and from urban areas. Second, Alaska rural routes, with their dependence on satellite technology and their higher costs per unit of service, present viable opportunities for cost reduction through competitive and technological innovations; it is important that rural Alaska not be denied the benefits of competition.

Fortunately, paying a subsidy to a single regulated carrier is not the only option. Although any subsidy mechanism is apt to distort the workings of the marketplace to some degree, there are alternatives available which will foster, rather than hinder, interexchange competition. Such subsidies may be referred to as "competitively netural" because they don't create an unfair advantage for any competitor. A competitively neutral subsidy must preserve the competitive advantages of the marketplace participants by providing proportional benefits to all competitors. Under such a scheme, if any carrier on a given route receives a subsidy enabling it to reduce its rates by a certain amount in order to bring them in line with a national standard, then all carriers serving the same route should receive subsidy payments enabling them to reduce their rates by the same amount even if such a reduction would leave a carrier's price below the national average for comparable service. Subsidies to all carriers designed to normalize the rates of each to the national standard will not work because they serve to eliminate pre-existing competitive advantages.

Additionally, neutral subsidy mechanisms must be administered in a manner which allows non-regulated carriers to participate without assuming the burdens of regulation; otherwise, the cost to these carriers of participating in the subsidy program may exceed the benefits of the subsidy.

The most efficient and least distortive interexchange subsidy mechanism would be one administered through the exchange carriers by proportional reductions in the access charges faced by all carriers interconnecting with a particular exchange. Under such a system an eligible exchange common carrier which certified that the charges for interexchange service to and from its remote or rural exchange exceeded the national standard would receive a payment from a pool fed by surcharges on access charges. This payment would equal the amount by which the total annual charge for interexchange service to and from its exchange exceeded the amount that would be charged at national average rates. Any exchange common carrier receiving such a payment would be required to proportionally reduce the access charges applicable to all carriers serving that exchange by the full amount of the payment even if this were to result in negative access charges. Any carrier receiving the benefit of such a reduction in access charges would be required to reduce its rates for service to and from such exchange by the amount of the reduction in access charges.

For example, if company X, an exhange carrier in rural Alaska, certified that the charges for interchange service to and from its exchange as provided by an interexchange carrier, company I, were equal to 130 percent of the applicable national average cost and that the total annual volume of interexchange traffic to and from the exchange was $130, and the goal of the subsidy program was to keep rates within 110 percent of the national average, then X would be entitled to receive $20 from the interexchange subsidy pool. This $20 represents the difference between the $130 that would be paid by exchange users for interexchange service at the existing rates less the $110 that would be paid by such users if the rates were at the limit of 110 percent the national average. Company X would then be required to lower its total annual charges to interexchange carriers for exchange access by $20. If its total annual access charges were only $10, X would be required to pay $10 to the interexchange carriers connecting with its exchange based on the usage sensitive component of its access charges.

Company I would, in turn, be required to reduce its rates for interexchange service to and from the exchange operated by X by the amount of any reduction in the access charges paid by it. Thus, using the case of a negative access charge as presumed above, if instead of paying $10 to X for exchange access, I received $10 it would be required to reduce its total annual charges for service to and from X's ex-

change by $20; this would bring the rates for service to and from the X exchange down to 110 percent of the applicable national average rate.

If an unregulated competitive carrier, company C, were to offer interexchange service to and from the exchange owned by X, C, would also receive an access payment instead of paying an access charge. The total amount paid annually to C in this case would depend upon the volume of its interexchange transmissions to and from the X exchange. Since C would be unlikely to receive any business unless its rates were lower or its quality of service superior to that provided by I, it would not be necessary to statutorily require C to use the benefits of the reduced access charge to lower its rates. Presumably it would do so anyway in order to increase its volume of traffic and establish a competitive equilibrium.

It appears that the appropriate interexchange rate for a qualifying local exchange to use in certifying interexchange rate excesses is the rate of the least expensive common carrier providing universal interexchange service in the exchange. Since in the absence of adequate alternative facilities a common carrier's rate would be subject to tariff, the mechanism proposed above essentially allows the subsidy payment to be based upon the interexchange common carrier's costs of serving that exchange.

Alternatively, it would be acceptable to pay the interexchange subsidy for any given route directly from the access surcharge pool to the interexchange carriers serving the route as long as the subsidy was allocated among all carriers serving the route proportional to the volume of traffic carried on the route. As long as the subsidy is paid to all carriers and does not remove the relationship between a carrier's cost structure and its prices, it will be competitively neutral and thus serve both the goals of fostering universal service and promoting competitive efficiency.

Senator STEVENS. Mr. Roger Davis?

Mr. DAVIS. I do not have a prepared statement today, but I will have a brief summary prepared at the end of this meeting and sent to your office.

I would like to just speak now and outline and start by speaking on one issue, that is, the issue about a reasonable basic service rate for all Alaskans.

Reasonable basic service rates have to include the rural Alaskans and have to take into account the central office charge, residential charges, long line charges, and has to be literally universally applied. Universal service, however, has become very much a term much like waving the American flag, and for anybody to say that they disagree with universal service is almost like standing in front of a panel like this and committing suicide. So obviously I am not going to take issue about the universal service. But I am going to suggest that there is a secondary issue that is every bit as important, and that is development of the state-of-the-art communications in Alaska.

This has got to include competitive long line carriers. Such as General Communications, and obviously it is more than willing and able at this point to move into that field; like other people standing in the wings. It has to include enhanced long line service or local exchange services, and many of the local utilities have invested very heavily right now in local exchange. As you may know, Executone of Alaska is an Alaskan firm operating under contract, to provide goods and services, from Continental Telephone. Continental has invested extremely heavily within the State of Alaska as has the Anchorage telephone utility, the Fairbanks telephone utility and other rural areas. It also includes several apparatus firms like us, and in order for specialty apparatus firms to contribute to the development of the state-of-the-art communications services, two things must be assured. This is where legislation is required. This is the point where Judge Greene has not yet, I believe,

effectively handled the problem, especially in an area like Alaska. It is not AT&T and the Bell System involved in telecommunications, and first a true and fair competition has to be created, and at this point the terminal equipment is absolutely not the case. Second, an adequate rate of return has got to be available to insure the new products and ventures come into the marketplace.

There is no question that we have to assume a reasonable amount of risk and a reasonable amount of management to come into the marketplace, but there is also a question, in order for deregulation to work, companies such as ours have got to survive and be profitable in order to bring the new services. We are a very young firm. The company itself has been in business for 19 years in the State of Alaska, but really aggressively in the telecommunications, only about 3 years. We have not had 39 years as our competitors have, or 20 years or 18 years to develop the financial base to allow us to go into, as Commissioner Weatherly said, Savoonga and other areas in the bush in order to provide services. Those come, and their ability to do that comes from the profit in those areas where you open your doors in the first place.

In order for us to be profitable, a couple of things have to change. True and fair competition is the first thing that has got to be insured. Is there fair competition today? It is our feeling that in all candor there is not true and fair competition, and one of the causes of this is also a cause of the secondary question that is being asked today, how do we provide universal service at competitive rates? For example, the Anchorage Telephone Utility, who is our major competitor in Anchorage, has raised their rate 6.6 to 9 percent in areas where they compete with us in 10 years. Now, if we are going to financial statements, it appears to us in the same period of time that their cost of doing business has gone up 250 percent. The only way that they are able to raise their rates only 6.6 percent over a 10-year period of time is that they are utilizing funds coming from some other areas of their business to subsidize the areas where they have competition.

Now, we understand, especially in Judge Greene's settlement with AT&T and the Bell System, people like the Anchorage Telephone Utility are virtually ignored by that settlement. Something has to be done to insure, absolutely insure that, without question, there is no cost subsidy, and in all candor, the regulation on January 1 will not insure that unless Congress puts some teeth into deregulation and allows for some very significant penalties for firms that are caught in the process of cost subsidizing. The need to cost subsidize, the emotionalism of maintaining a customer at all costs, is just too strong for many of these people to bear.

I have an editorial that I would like to read at this time that was drawn from the magazine Telephone Engineering and Management, one of the most scholarly journals in this field. It is written by the editor, a gentleman by the name of Bob Stouffel, and the title of it is "It's a Right."

A privilege is a privilege until it is granted, and then it becomes a right. If you have doubts about this, consider that extra holiday, edification, special clerical services, reserved parking place, lunchroom service and et cetera. If ever someone considers taking any of these away once granted, we are likely to say "we are entitled to them." We are not entitled to anything except for perhaps life and liberty, not

even happiness, just the right to pursue happiness. The word "entitled" is not used specifically in industry too much, but its chatter looms large among some companies. We are entitled to a certain rate of return, we are entitled to retain a particular monopoly position, we are entitled to assert a division of revenue. We are entitled to it because we have always had it. Somebody way back when decided that a natural monopoly was the best way to go, and the quid pro quo for the resulting regulation was an adequate rate of return and consumer privileges.

This line of thinking grew generally for a good reason. Not only is a particular telephone company granted monopoly rights in certain franchies territories, but has the right to own wiring within the buildings, the instruments. Also, no one else can do this. They use their own wiring or own the instruments, or subdivide and resell any service or do any one of a number of other things.

We in the telephone company were entitled to a monopoly in these various services, and of course had the commensurate obligation to provide it.

But things have changed. Society no longer feels that telephone companies have the rights and privileges that have been taken for granted all these years. The companies, in other words, are not entitled to any of these things. All those rights that really started out as privileges are one by one being withdrawn, ands all of this of course makes for some pretty serious trauma, trauma that some quite frankly will not be able to deal with. The changes is not for everyone, but most can make the transition, and in the long run will find it exciting and stimulating.

Maybe the best first step is to go to the dictionary and boldly cross out the word "entitled" and promise never to use the word again.

Now, Judge Greene, in his opinion, and much of the legislation that has been developed to deregulate AT&T and the Bell System, makes one basic assumption, and that is without legislation or without court approval the Bell System is going to drag their feet in deregulating and living up to the rules of true and fair competition. But somehow, because we are dealing with somebody other than Bell System in an area like Alaska, and many other areas in this country, we are making the assumption that they are going to play by different rules than those that we fear Bell system would play by.

Quite frankly, this is not the case. In all of those areas where extremely fierce and what I feel costly subsidy competition exists, the majority of the areas where there is tremendous damage being done are areas where independent operating utilities operate, and quite frankly, it is the case whether you are talking about Rochester Telephone, which literally has lost millions of dollars in lawsuits over the years, or Mid-Central or Central Telephone, which has had the same problem, or quite frankly, here in Alaska where the only thing precluding major lawsuits is the ability of Anchorage Telephone & Utility, and for that matter, Fairbanks Municipal Utility System, to hide behind being a governmental agency as well as a telephone utility.

The marketplace in order to work has got to insure that there is true and fair competition and to leave these people out of legislation and allow them the ability to compete in the ways that they have in the past. Without any major muscle in this legislation, it is really only addressing the problem for people throughout the rest

of the United States to compete with the Bell System. Frankly, we do not have that luxury, and we wish we did.

Two other minor comments: True and fair competition could exist today if one thing was different, and that is if the local utilities were not able to reach into this gigantic pool of money—in the case of ATU last year, approximately $60 million in revenue, $30 million or $40 million came out to toll settlements—and use those funds in order to compete, and much of the emphasis and the testimony today has been after deregulation, ATU is going to lose a very significant amount of this $30 million or $40 million. But very little of the testimony today has been what happens if you cannot get it all back. What are you going to do to reduce your expenses, to change the scope of your operations? There is nothing in the markup of a public utility that requires it to be necessarily efficient anyway.

Once we stand behind the utilities and say, look, we are going to make up 100 percent of the shortfall in revenue, then we miss the whole point of deregulation. Deregulation means that the people are not going to be asked to spend more money to provide telephone services. It is just going to be divided differently among a number of different competitors instead of all going to one location.

The task before us now then is to understand that true and fair competition does not exist throughout the industry today, and that much of what has been done in S. 898 or H.R. 5158, which our industry preferred over S. 898, admittedly. Much of what is being done there is a step in the right direction, but not to look at the other operating utilities and ask them to live up to the same types of standards that AT&T and the Bell System are living up to is missing or leaving an entire segment of the marketplace unprotected.

The second task is to insure that the highest level of service and the lowest price is provided to the people within the State of Alaska. We want to call it universal service and I will agree with that. It is universal service, but simultaneously with deregulation and work we have to insure that competition exists and it cannot just exist in the lower 48 States. It has got to exist in Alaska and Hawaii as well and it has to be true and fair competition and it has to be based on the same rules and regulations that there is throughout the rest of the country.

And, third, to agree that a basic price level of basic services throughout the country serves all of us, it must be supported by all of us. There is no question that there is a requirement for the type of rural services that virtually all of the speakers have spoken about today. It is absolutely mandatory to insure that Savoonga gets basic telephone services so that some day if my firm chooses to go to Savoonga to compete we have the opportunity to have something to connect to in terms of central office lines and long distance network.

Legislative actions will be necessary to support this and this is the most critical point, I believe, in my comments. Until market factors that have been dead in this country for so many years are rekindled and brought back to life—because during the years the telephone industry was a monopoly industry the market factors have been stamped out entirely—and those factors include the abil-

ity of firms like ours to reach into new locations and develop the kind of capital it takes, for example, to support customers in Barrow or Savoonga or wherever else, we want to support those customers.

They have also stamped out the feeling on the part of many people within the operating utilities that they have to play by the same rules that everybody else in business plays by. To a very great extent, the editorial explains that after the first time clearly.

In my mind, I am probably one of the only people in this room today that did not historically come out of the telecommunications industry. I came out of office systems. I have never understood why the rules were different there before. For the first time, I am beginning to understand. It does not make it right. It means that I understand and something has got to be done to insure that these people are helped over the hurdle into deregulation legislatively because the emotion involved just is not going to allow it to develop.

That summarizes my prepared statement.

[The statement follows:]

STATEMENT OF ROGER C. DAVIS, PRESIDENT, EXECUTONE OF ALASKA, INC.

First, let me thank you Mr. Chairman and members of this Committee for giving me personally, in the name of Executone of Alaska, the opportunity to address this hearing today.

We would like to confine our comments to three issues. The first, and perhaps the most basic issue that everybody at this Hearing will probably speak to today in terms of telecommunications issues, is the issue of being able to insure reasonable basic service rates for all Alaskans. Reasonable rates must be assured for urban subscribers, as well as for rural subscribers, and rates must be kept reasonable in a number of different areas: Central Office Services, including the cost of central office lines; Trunk charges for both residential and business applications; Residential and business equipment charges; and the cost of providing long distance service into both urban and rural Alaska.

In the case of residental and business equipment charges, and in the case of long distance charges, one new issue that is being introduced by deregulation is the issue of competition. Competition will have a very significant impact on maintaining reasonable residential and business equipment charges, as well as keeping a lid on long distance charges.

Most speakers in the telecommunications industry speak to the issue of universal service. Saying that you want to provide universal service is much like waving the American flag—who could possibly disagree with it? Who could argue with it? We certainly aren't here today to argue with the idea that telecommunications is a critical service for people throughout the United States, and especially within Alaska, where distances are so great and where the cost of travel is so high.

We feel very strongly that a formula can be worked out, such as the formula outlined on Senate bill No. 898, that will assure a reasonable level of basic service to both urban and rural Alaskans. We do not see this as a complex issue; we see it as one that can be settled by simply adjusting to a very minute degree for example, the National Long Distance Pool, to assure that areas like Alaska and Hawaii, and other areas that have a rural complexion, are assured basic services at a reasonable rate.

The second issue that we would like to address, however, is equally as critical as the issue of assuring reasonable basic services. That is the issue of the development of enhanced State of the Art Communications Systems for Alaska. These State of the Art Systems will have to include long distance or long line carriers; they must include local exchange services and they have to include specialty apparatus and networking firms, and such Executone of Alaska.

In the case of long line carriers, and especially apparatus and networking firms, the development of enhanced State of the Art Communications Systems has come a long way in the last ten years within the State of Alaska. The single, most important ingredients in the development of these enhanced State of the Art Systems have been the development of new technology and the introduction of that technol-

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ogy to Alaska, spurred by both the reality and the threat of competition. For example, until competition heated up in the major metropolitan markets within the State of Alaska approximately seven years ago, the local operating utilities were selling technology that was thirty years old. True, the instruments themselves were newly manufactured, but the basic technology had not been significantly improved upon in three decades. With the advent of competition, both the operating utilities and those new competitors were off to the marketplace with whole host of dramatically improved products that have helped Alaska business cope with the phenomenal growth in the last seven years.

The whole issue of the deregulation of the telephone industry is based on the assumption that competition is good for the consumer, it's good for those people who are competing and its's good for Alaska and the United States as a whole. But, for competition to work, there has to be what we term, "true and fair" competition. Simultaneously, there has to be an adequate rate of return to insure that new products and new ventures become available in the marketplace. These two items, "true and fair" competition and adequate rate of return, are where we intend to address the balance of our comments today.

First, let me make it very clear that those of us who are considered to be the competition to the traditional operating utilities in the telecommunications market have the responsibility of providing a reasonable level of good management. Secondly, we have the responsibility of introducing new products and services to the marketplace. Third, we have the responsibility of backing with an adequate level of service, the new products and the services that we do bring to the marketplace. We are absolutely committed to the competitive marketplace and believe that the competitive marketplace is the best possible means of delivering high quality, inexpensive goods, and services. The basic free enterprise system has worked that way for many years. It is critical, however, that we point out that the same market forces that make the free enterprise system work throughout the United States in most industries, have been dead in the telecommunications industry for decades because of the monopoly nature of that telecommunications industry.

It is also critical that we point out that as of today, "true and fair" competition does not exist within the competitive marketplace and that the reason is twofold: One is the emotionalism of many people within the utility environment seeing competitors who just a few years ago did not even exist, taking valued customers and friends away from them for the first time; a practice that most of us in business have had to observe from the beginning of our businesses because the nature of competition is that you don't win every competitive battle that you are involved in and that you lose from time to time. The key to learn from your losses so that you lose as seldom as you possibly can.

I am attaching an editorial written by Mr. Bob Stofles, who is the Editor-In-Chief of the magazine. "Telephone Engineering and Management", which many people in the industry consider to be the most scholarly journal in telephony available. The title of his editorial is, "It's a Right" and basically what the editorial talks about is the incredible emotional impact of this newfound competition on the traditional management of most operating utilities. He makes it very clear that in his opinion, many will not be able to.

The Justice Department, in their settlement with AT&T; the Senate, in its Senate bill No. 898; and the House, in House bill No. 5158, all looked at the massive AT&T Bell System network and they made an assumption that with their power and with the emotion of the traditional management, it was unreasonable to assume that their managers would be able to operate both in regulated and unregulated business under the same roof, under the same management, with the same funding and the same staff. As a result, virtually every deregulation movement, whether it be the Justice Department, the House version, the Senate version or those being argued by other people (ie: the Federal Communications Commission), include setting up totally separate subsidiaries for regulated and unregulated business for the Bell System, which represents the majority of the telecommunications service in the United States.

Within Alaska and many other areas, however, we do not enjoy competition with the Bell System that our neighbors, ie: Seattle, Portland, or many other areas of the Northwest enjoy. Rather, we compete with independent operating utilities and within Alaska, only independent operating utilities. These utilities have utilized many methods throughout the years to stifle their competition and as of today, those of us who compete with those utilities are not being afforded the protection of the majority of the competitors of the Bell System by requiring these utilities to establish separate subsidiaries to insure that there will be "true and fair" competition.

Legislation is needed to put some teeth into the requirement that all operating utilities, not just the Bell System, compete "truly and fairly" in the marketplace. By competing fairly, for example, I mean that they cannot utilize funds derived from their monopoly services to artificially maintain extremely low rates in areas where they do have competition.

Does "true and fair" competition exist today within the State of Alaska? It is our opinion that it absolutely does not and that the only reason that it does not, is that the Federal Communications Division stepped up to the requirement of providing cost effective universal service to rural America some time ago. Within the State of Alaska, a tremendous bonus in long distance revenues has floated into the operating utilities to help keep local services down. For example, within the Anchorage Telephone Utility last year, of approximately $60 million dollars in revenue that they brought in, $34 million dollars of it came from toll settlements.

We do not argue that all utilities are misusing the funds. For example, the rural utilities people, like United Utilities, have utilized these toll settlements to build a network of small local telephone exchanges throughout rural Alaska. We applaud their efforts. We encourage them to continue their efforts. We also encourage the Congress of the United States to insure that they have the funds to continue this kind of activity.

Within the urban centers of Alaska, however, those funds have been used to a great degree for a different purpose. True, cities like Anchorage and Fairbanks who own their operating utilities have invested in enhanced Central Office Services, but much of the funds have come in that were assigned to keep basic service costs low for the basic consumer, and have been utilized instead to cross-subsidize unfair competition in competitive environments. Let me give you several examples:

"Within Anchorage, the Anchorage Telephone Utility has increased their rates only 6.69 percent in areas where they have competition over the last 10 years. During the same period of time, from reviewing their financial statements, it is obvious that their cost of doing business has gone up approximately 250 percent. How can they only raise their prices where they have competition only 6.69 percent? The answer is very obvious. The windfall revenues coming in from the tremendous toll share settlements made available to the Anchorage Telephone Utility to keep expenses down, are instead being applied, to a great extent, to insure that they are in an extremely attractive cost position in areas where they have competition, (ie: with our firm).

"They aren't the only people, though. In Fairbanks, the Fairbanks Municipal Telephone Utility has historically priced equipment sales, in areas where they compete with firms like ours, at cost plus labor without including any reasonable amount of overhead, any reasonable return on investment, or without returning any reasonable amount of profit. In many cases, they have priced equipment at less then cost, explaning it away as a pricing error from time to time. Again, the only way that they are able to do this is by applying funds that are targeted to keep basic service costs down into areas where they currently experience competition.

"What about our long line carriers? Within the State of Alaska, Alascom, which is owned by Pacific Power & Light, has a division by the name of PACOM. This PACOM Division for the last two years has followed a pricing policy in terminal equipment that priced jobs at or below cost in many areas of Alaska with extremely minimal return on investment, if any. It is our opinion that they have lost a significant amount of money in the equipment market as they attempt to buy their way into that market. Again, the only way that they are capable of doing this is by taking revenues targeted to keep basic services down and applying those in an incorrect manner into areas there they face competition."

Let me point out that within the State of Alaska, the tremendous toll revenues flowing into the utilities subsidize all of their operations and that kind of cross-subsidization which we find extremely difficult to compete with, which the courts have found to be unfair competition, and which was not the intention of the Federal Government when they allowed the tremendous toll settlements within rural America to be established, is all done in the name of universal service. These kinds of activities live off revenues from the monopoly utility services that could be used to keep rates down.

In the case of Anchorage Telephone Utility and Fairbanks Municipal Utilities systems, it draws off revenues that could be used to maintain more reasonable local exchange rates. Within Alascom, it draws off revenues that could be used to keep toll charges down. Simultaneously, these utilities spend a tremendous amount of money manipulating the current regulatory process and filing delaying actions and legal actions that stifle their competition, all of which are new firms that do not have the capital base and recurring revenues to draw on in fighting people who

have had the benefit of many years of an absolute monopoly position to build their financial strength, (with guaranteed profits).

What we are encouraging then is that the Congress of the United States first, continue to understand that it costs more to provide basic services in rural America, but simultaneously understand that much of Alaska is no longer rural in nature and that at the same time as they provide the funding through Legislative means to keep basic service expenses under control in rural America, that they put some guidelines into the bill to insure that the funds are used for the purpose for which they are intended and not used to insure that the operating utilities, in what Congress defines as rural America, can mis-appropriate those funds to keep rates artificially low in areas where they do have competition. For deregulation to work, the competitive marketplace has to work and the tools that are being utilized by many operating utilities to keep an artificial monopoly position, have got to be taken away or deregulation will be a dismal failure. All that we will be left with is a situation where major operating utilities have no competition and are operating in an unregulated environment, which will result in the same types of abuses that led to the Sherman Anti-Trust Act many years ago.

Two other very minor comments. First, let me point out that the entire utility revenue and profit structure does not promote basic efficiency. All the utilities want to discuss at the present time, is the need to make up lost revenue due to deregulation. They do not want to discuss their concentrated efforts on expense reduction or operational efficiencies. Nor, do they want to face the fact that one of the things that deregulation means is that some of the dollars currently being spent by customers with their firms, will in the future, be spent with other firms. The purpose of deregulation is not to get the consumer to spend more for a level of service, but is to allow the consumer to potentially spend less. For us to insure that the utilities have the same basic revenue levels as they had prior to deregulation, plus at the same time allow the competitive environment to allow firms such as ours or General Communication, Inc. to have a share within the marketplace and also to realize some of the revenues being spent by these people, insures that the consumer will in fact spend more for services, instead of less.

There is no question that many of the areas that the utilities once considered cherished possessions, where they felt that they were entitled to the business, will go away if Congress recognizes that the competitive environment, which has been dead for so long, needs protection for the next few years while it's re-created, and firms like ours and other firms who compete with the operaring utilities, have the opportunity to build some stability, some financial security and compete in a "true and fair" competitive environment.

In closing, let me point out that the issues of competition in the telecommunications industry versus maintaining reasonable basic service charges, are not mutually exclusive issues, as many claim. In many ways, they are mutually supportive. The whole issue of deregulation was to allow enhanced goods and services to come into the marketplace and use a competitive process within the marketplace to keep rates down. We understand that this is a tough pill for many people who had a vested right to the business only a few years ago to swallow, but it is a pill that the country as a whole has decided upon and it's one that will only work if Congress steps up to the realization that "true and fair" competition does not yet exist, that it can exist, but that it will require some protection on the part of Congress while the markeplace, dead for so many years, re-kindles its spirit and its power.

The tasks before us now then are to understand: (a) That "true and fair" competition does not exist in the industry; (b) That to insure the highest level of service at the lowest price, fair competition must be assured; (c) to agree that a reasonably priced basic level of service throughout the country serves all of us and that it must be supported by all of us; and (d) that Legislative actions will be necessary to insure that all of this occurs while the market factors, dead and suppressed for so many years, again take effect. Legislation is needed to insure that the independent operating utilities, as well as the Bell System, are excused from the burden of attempting to run regulated and deregulated businesses side by side with the same staff, the same funding, within the same environment, and with the same management. There is no question this will be burdensome to many of these utilities, but many of these utilities are multi-million dollar firms. For example, in Alaska, the Anchorage Telephone Utility is a $60 million dollar business who could very easily spin-off a competitive equipment subsidiary with minimal disruption and without seeing significant additional expenses. The benefit to Alaska and to the entire country would be a true competitive environment so that the deregulation process, which is counting on a competitive environment to hold costs down, will in fact have the opportunity to come into existence.

Thank you very much.

Senator STEVENS. Thank you very much, Mr. Walp. Do you fear that these separation and settlement processes are not going to be capable of handling the subsequent problems you discussed or that there is no indication they are going to try? Which is it?

Mr. WALP. We feel that to shift the access charges from separations and settlements under the current circumstances does not guarantee adequate support for Alaska and other rural areas.

Senator STEVENS. But the process could result in the same kind of protection we had on S. 898, could it not?

Mr. WALP. It conceivably could. It is unlikely because the Commission itself in the past has been very reticent to apply any safeguards to the extent that it requires. The Joint Board in the rate integration questions their own authority to subsidize to the extent that it is required.

Senator STEVENS. What about those Joint Board? Don't you think they have been helpful in meeting our problems?

Mr. WALP. Not to the degree that it is needed and not in the past, at least, and there seems again to be no indication that without a mandate—a specific one—obviously there is no guarantee, obviously, and without something on the order of legislation we are left to the forces that represent the majority of the customers in the lower 48.

Senator STEVENS. I sense there is a basic disagreement with two of you on this panel as far as services are concerned. Am I correct that, Mr. Davis, you believe we have not gone far enough in the Senate bill to meet the problems of competition? Is that correct?

Mr. DAVIS. That is correct.

Senator STEVENS. And what you are really saying is that you want the ability to compete within a given area—say, well, within Anchorage with the Anchorage Utility—but you do not want the utility to be relieved of its responsibility to provide the services to you, is that right?

Mr. DAVIS. I am not quite saying that, Senator. What I am basically saying is that the utility has the responsibility to provide the basic service despite the nature of being a telephone utility—central office services, access to long distance network.

I am very pleased, for example, that the directory services will be left with the operating utility. That is absolutely mandatory. That is what the charter is. That is why we guarantee them the rate of return, guarantee them a place within the marketplace.

Simultaneously, however, what we have to insure is that something—the two best examples I am aware of is the operating utility who does not raise its rates in areas where it has competition more than 6.69 percent over a 10-year period of time could not possibly happen unless the funds were provided by areas outside of the areas where they have competition—and primarily it is long distance revenues.

Those long distance revenues that are being set aside for the State of Alaska, hopefully to keep local services down, are being wasted to a gigantic extent by many of the utilities, by dollars and cents competition with people like our firm, who literally buy the business because they cannot bear to see it go. They have had a

vested right to it for so many years that even if they have to waste the dollars to keep that business, mentally it is acceptable to them.

The Anchorage Telephone Utility are not the only people we quarrel with over this. It is very difficult to prove. In the Fairbanks Utility Systems we have got documented cases where it has actually sold equipment, against us, under cost. You cannot do that and survive in business unless you are taking funds from somewhere else.

Paccom, which is the telephone equipment (terminal equipment), supplier of, Alascom;—I understand, is being reorganized; due to so low a rate of return against us that we absolutely could not survive on the same margins. Our operating expenses and overhead are one-half of what theirs are. In the areas where they are selling terminal equipment, in many, many cases it is our feeling that they are selling below cost and we understand this has been illegal for a long time.

It is extremely difficult to prove. It is our feeling that the only reason this can possibly exist is these kinds of subsidies, (that we keep talking about to keep expenses in rural American down), are being utilized for purposes that they were not intended.

They are being utilized to allow unfair price competition in areas where the utilities do have competition.

Senator STEVENS. Now, does GCI have the same problems?

Mr. WALP. I think we are in different issues.

I would like to let Ron make a few comments, if I may.

Mr. DUNCAN. I think the problem—Mr. Davis' problem—these are some of our concerns. He is distressed because the AT&T settlement does not apply here. We have a separate operating utility that creates real difficulties in his business, which is the sale of customer equipment.

We are in a situation where by not having AT&T up here our entry into the market is facilitated because the local exchanges have been more ready to cooperate with us. They do not have a vested interest to protect on the long lines part.

I think that is the reason for the difference in our focus here. I think his perspective is one of bringing competition into the local exchange operators and the perspective we focus on is competition in the exchanges side of the fence.

I think both require specific legislation. However, 898, from the perspective of interest, has changed competition. It is very acceptable to us. We did not address the perspective of regulation of the local exchange utility itself. I think that is the difference.

Senator STEVENS. That is helpful.

Thank you very much, all of you. We appreciate you taking the time to explain your position to us.

Next, Mr. Pistorius of the Anchorage Telephone Utility and Steve Hamlen of United Utilities.

Gentlemen, for your information, we are going to run directly through till noon and then after noon we will reconvene at 1:45 to the extent we have not finished.

STATEMENTS OF ALBERT C. PISTORIUS, GENERAL MANAGER, ANCHORAGE TELEPHONE UTILITY; AND STEVE HAMLEN, UNITED UTILITIES, INC.

Mr. PISTORIUS. Good morning, Senator.

I have a statement here. However, I will read just a summary of the statement. It is a little bit long.

I welcome this opportunity to express our concern for the future of the telecommunication industry in general and Alaska in particular.

I firmly believe that only through congressional legislation can the current regulatory original dispute be resolved in an equitable, timely manner. Such legislation must provide clear and precise guidelines for future national telecommunications policies that will insure the availability of the original service to all people of our United States, without disruptive economic harm to the telecommunications.

In the past, local telephone companies were required by Federal and State to provide complete telephone service. Both interstate and intrastate regulation sources were available to help pay for the system. The rest of the United States has had the advantage of this system for a number of years. It has achieved universal service.

Alaska only recently became a part of this structure and is currently in the midst of a long-term commitment to achieve the same level of service currently enjoyed by the rest of the country. However, the FTC has now eliminated portions of this responsibility of customer premise equipment, of long distance services, and has also eliminated the interstate source of revenue to help pay for the system.

In its docket 828 FCC eliminated the requirement for utilities to provide CPE, eliminated interstate revenue sources historically provided for local operators for installation of this equipment. In docket 80–286, the FTC eliminated interstate revenues on all existing telephones of this type, even though left in place and continued to be regulated by State commissions.

In docket 78–72, the FCC is now trying to decide which charges are appropriate to other common carriers for their use of local exchange facilities. Even though the FTC authorized such use in 1978 and regulated telecommunications, the utilities had to pay the burden of these costs all along.

I am not saying the change will not bring about benefits to the telecommunication industry and the public in general, taken as a whole. But I am saying that changes made for the country as a whole can have an adverse impact on many of the places that make up that whole, particularly high cost areas such as Alaska. If Alaska is ever to achieve universal service, we must still require telephone utilities to provide Indian service and must receive revenues for the interest of the State and the interstate usage of these facilities.

Our concerns in Alaska are not for the provision of complex communications systems and networks to a few large users in a few large towns on a competitive basis without regulated suppliers for these limited services. Rather, our concerns are to achieve and

maintain the same level of basic telephone service enjoyed by all Americans at similar basic and formal rates.

Congressional action may be Alaska's only hope to avoid being swept along in the FTC's present tidal wave of deregulated competition. The open market revolutions to be, universal service objectives are no conducive in high-cost, low-density areas such as Alaska. The removal of interstate revenue sources, interstate use of local company facilities, coupled with the loss of a few large users regulate services to unregulated companies.

Therefore, the loss of contribution these users made toward the cost of jointly used facilities will only result in extremely high local rates for Alaskans. Monthly rates increasing over 200 percent for basic local services can be expected—local basic rates at these inflated levels and the associated erosion of the present level of service in Alaska, the State of Alaska or this Nation.

Recent studies conducted, substantiated by AT&T and presented in Federal court on behalf of AT&T in recent antitrust hearings before Judge Green illustrate severe erosion of basic universal service directly attributable to upward local big pressures. I have attached a copy of this exhibit in my formal statement, which I request be entered into the record at this time.

I appreciate having the opportunity to express our concerns to you today and welcome the opportunity to answer any questions that you may have at this time.

[The statement follows:]

STATEMENT OF ALBERT C. PISTORIUS, GENERAL MANAGER, ANCHORAGE TELEPHONE UTILITY

My name is Albert C. Pistorius. I am General Manager of Anchorage Telephone Utility (ATU) of Anchorage, Alaska. I am pleased to be here today on behalf of ATU to express our opinions and recommendations for the future of telecommunications services in Alaska.

ATU is the largest local operating telephone company in the State of Alaska providing service to more than 90,000 main stations in the Municipality of Anchorage and surrounding areas. ATU is the twelfth largest independent telephone operating company in the United States and the largest municipality owned telephone company.

ATU interconnects with Alascom, Inc., the long distance carrier for Alaska, providing local exchange access for intrastate and interstate message telephone service (MTS), interstate WATS, private line, foreign exchange, and tie line services. ATU currently derives approximately 45 percent of its total revenues from the provision of exchange access for interexchange services through cost base settlements with Alascom. These revenues are critical to the continued provision of high quality "universal" telephone service to the citizen of Anchorage.

There are a great many major issues currently confronting the telecommunications industry and the various regulatory bodies empowered to insure the fulfillment of the objectives of the Communications Act of 1934. I firmly believe that the ultimate resolution of these issues and the future direction of the telecommunications policy of the United States must come from Congress itself. I fear that Federal and state regulatory jurisdictional issues may become the object of endless disputes without the firm, precise and timely mandate of Congress as a clear guideline to follow.

The manner in which Congress resolves these various issues will affect the structure and the financial stability of all segments of the telecommunications industry for many years. These issues are extremely complicated and their potential impact upon both residential and business rate payers, and on exchange and interexchange carriers, is enormous. At stake is the continuation of the efficient, reasonably priced, nationwide "universal" telephone service currently enjoyed by 98 percent of the people in this country.

The overriding legislative objectives of Congress must be to improve the nation's telephone service; to ensure that both local and long distance telephone service remain reasonably priced and affordable to all U.S. citizens; and to reduce, not increase, Federal regulation of the telecommunications industry.

Specifically, ATU believes that any telecommunications legislation must include provisions which will:

1. Permit telephone companies to fully recover their costs of embedded customer premises equipment (CPE) before embedded CPE is deregulated and/or removed from the rate base or separations process;

2. Establish a mechanism which will ensure that there is no gap in the flow of revenues to local telephone companies from the provision of exchange access for long distance carriers and removal of CPE from local companies rate bases. In other words, steps must be taken to make sure that there is no lag in either time or dollar amounts between current settlement payments and payments to be made to local companies under any proposed access fee tariffs or other such similar arrangements. This will require that any mechanism for the distribution of such revenues be in place and have monies available to disburse before payments under the current system are reduced or eliminated;

3. Retain private sector control over the collection and distribution of such revenues so that local companies will not be forced to incur new burdens and the added expense of dealing with a Federal regulatory agency in Washington, D.C.;

4. Provide that a local carrier should receive such payments when its costs of providing telephone service exceed the national norm. ATU believes that this cost base approach is preferable to any average rate formula that may be contemplated; and

5. Provide protection for the integrity and stability of the local exchange networks, their associated long term capital investments and preserve the concept of "universal service" for the people of the entire United States.

EMBEDDED TELEPHONE UTILITY EQUIPMENT

One of the major issues currently being confronted by the FCC is the deregulation of customer premise equipment (CPE). A key point with respect to this deregulation of CPE must be noted at the outset: The elimination of toll settlements on CPE will result in higher local basic telephone service rates.

Presently most telephone companies local rates for CPE are at or above actual costs. This is before any consideration for toll settlements is taken into account. The toll settlements received for this equipment are incorporated into the overall revenues of the Utility and aid in keeping basic local service rates down.

With the deregulation of CPE and the resulting loss of toll settlements, two things will occur: (1) local charges for CPE will rise or remain the same depending on market conditions (it is assumed that because competition in CPE exists today, present rate payers are sensitive to the level of their present rates for this equipment and no loss of customers will occur) and (2) local basic telephone service will cost more (because of lost toll separation support). There will not be an offset of lower terminal equipment rates and higher basic service rates as some have alleged. In the case of ATU the local basic service rates would have to rise approximately 72 percent to maintain existing revenue levels if these toll settlements just for CPE are lost.

In addition, the reduction of regulated revenue sources to pay for embedded CPE costs should not occur until capital investment in CPE has been fully recovered. Companies should be allowed to fully recover their costs associated with the provision of CPE until the equipment is removed from regulation and the capital investment associated with the equipment is fully recovered from the toll and local services using that equipment. Telephone companies, regardless of their ownership characteristics, are just like any other businesses. They make investments based on certain assumptions; they assume sources of revenue from both local and toll; and they assume they have the ability to recover that investment and the opportunity to earn a fair return. They have assumed that regulation would provide them with a relatively stable environment in which to earn that return.

It is ATU's position that any regulatory body or legislation should not alter the conditions under which telephone companies have invested significant amounts of capital without simultaneously providing a means for those companies to recover investments made in reliance on the current regulatory system. ATU strongly urges that legislation provide for full recovery of the cost of embedded CPE before deregulation. Additionally, a mechanism must be in place to offset declining toll separations through this transition period for capital recovery to mitigate the upward pressures that would otherwise affect local rates.

FUTURE OF TOLL SETTLEMENTS

Any proposed legislation must recognize the upward pressures that have been and will continue to be applied to local rates. If "universal" service is to be preserved in all areas of the United States, some means must be devised to alleviate these pressures.

Attached hereto as Exhibit I are the results a study performed for AT&T and presented in the anti-trust hearings before Judge Green. This study clearly depicts the adverse impact upon "universal service" if local rate increases are implemented.

Both the Senate, in S-898, and the House, in HR-5158, have contemplated mechanisms which would reimburse local carriers in high cost areas for the distribution of interexchange services in the local network. However, neither of the proposed mechanisms would achieve the objectives of "universal service" unless access charges to the local network are set at a level which compensates the local operating company for a substantial portion of its costs. In ATU's view, any such mechanism should involve the determination of aggregate costs of exchange distribution services for comparative purposes as these costs are somewhat easier to apply consistently than those costs for determining average rate levels.

ATU believes that the standards of eligibility for payments from any such mechanism must recognize any area of the United States which may have a relatively high cost in providing local exchange distribution services. The particular size and/or service area of an individual exchange or company must not be a consideration in the determination of any such eligibility requirements. As an example, although ATU currently has approximately 90,000 main stations, the cost of constructing telephone plant in Alaska in very high due to the extreme weather conditions, high labor costs and relative remoteness from the major industrial centers of the rest of the United States.

ATU also has concerns regarding the administration and distribution of revenues under any mechansim contemplated to replace the existing toll settlements arrangements. If such a mechanism is to be administered by the FCC or other Federal agency, then both the cost of dealing with that Federal body and the risk of untimely payments may severely harm the financial well being of the Utilities qualifying for such payments.

Time and distance would make it very expensive for most independent telephone companies to file support and discuss cost study results with a Federal agency located in Washington, D.C. Most local exchange companies do not now file with the FCC for any purpose. All filings, both regulatory and separations, are made locally with the appropriate state entities. Additionally, the sheer volume of filings would require substantial increases in the size of any such Federal agency's staff. We feel that each company should be required to interact only with its connecting carrier(s) on these matters and only the predominant carriers should be required to support its jurisdictions costs with the FCC.

We strongly urge that the task of administering any such revenue mechanism be left to the private sector as is now the case under the current separations and settlement process. This will minimize additional new regulatory burdens and associated costs that would otherwise be placed upon local exchange companies.

ATU is also concerned as to the manner in which a local operating company would receive payments through any such legislative mechanism and how amounts paid prior to a final study eligibility analysis will be determined. Presently ATU receives a proportionate share of its current costs in toll settlements. These amounts are adjusted for any significant changes in levels of costs. Any significant lag in the receipt of this cost reimbursement would present severe financial problems to ATU. The amounts to be paid from any legislative mechanism should reflect current levels of costs and ensure against needless lag.

THE JOINT COST ALLOCATION ISSUE

The resolution of the issue of joint cost allocation in the telephone industry will effect the cost and availability of telecommunication serices to all rate payers, both large and small, for years to come. Thus full and careful consideration must be given to social and economic effects of any legislative proposal in this area. The issues involved do not lend themselves to easy or straightforward resolution. In most cases, there is no "right" answer to questions, only possible approaches. Economic principles must be balanced with social policy, legal and equity concerns to achieve a result that will serve the public interest in continued availability of telephone service at reasonable rates for the entire populous of this country.

Because of the importance of insuring that any resultant legislation is based on appropriate criteria, I would like to address two prevelant misconceptions regarding

the allocation of jointly used telephone plant. The first misconception is that there is an economically correct or truly "cost base" method for allocation of jointly used facilities. On the contrary, any allocation method in these circumstances is inherently arbitrary. In terms of the actual service purchased in making toll or local telephone calls, it is impossible to determine the portion of the "actual cost" of the joint facilities used in providing each service.

The second misconception is that any one allocation methodology, for example, subscriber line usage (SLU), will foster competition in the telecommunications industry. This misconception falls from the first misconception that there is a truly cost base method for allocation of jointly used facilities and the standard economic principal that in a competitive market, prices will equal marginal cost. Although efforts have been made to promote competition in the interexchange market, the adoption of the use of SLU will not lead to this result.

In ATU's view, the only procedure which will allow true competition to take place is the uniform application of an allocation methodology to all competitive services. All competitors who receive similar access to exchange facilities should do so on the same financial terms. Competition will be ensured regardless of the level of access charges if each interexchange carrier pays the same access charge for comparable services to the local exchange carrier for the use of that local carrier's services and facilities.

In summary, ATU believes that only through Congressional legislation will the future stability of the telecommunications industry and the continuation of "universal service" throughout the entire United States be assured for our future generations. However, any such legislation must embody a cautious evolution carefully weighing social and economic benefits rather than attempting a revolution solely in the name of competition.

I appreciate having had the opportunity to appear today on these important issues and I will be pleased to answer any questions you may have.

EXHIBIT 1.—ESTIMATED PERCENTAGE OF HOUSEHOLDS WITH BASIC TELEPHONE SERVICE [1]

Demographic characteristics [2]	Price increase [3]			
	Base	50 percent	100 percent	200 percent
All	91.52	88.15	83.69	70.92
Young	85.39	80.12	73.54	56.92
Black	86.37	81.38	75.08	58.89
Rural	88.84	84.59	79.10	64.28
Moderately poor	83.81	78.12	71.11	53.93
Young	72.18	64.14	55.22	36.97
Black	75.25	67.71	59.12	40.74
Rural	79.26	72.48	64.50	46.34
Very poor	79.28	72.52	64.53	46.38
Young	64.99	56.14	46.88	29.56
Black	69.21	60.78	51.66	33.69
Rural	73.85	66.07	57.31	38.96

[1] Percentages derived from the logistic equation in table 3 of economic and demographic determinants of residential demand for basic telephone service using household demographic and economic data from the following sources: U.S. Department of Commerce, Bureau of the Census. "Money Income of Households in the United States: 1979" (Washington, D.C.: U.S. Government Printing Office), and U.S. Department of Commerce, Bureau of the Census, "Household and Family Characteristics: March 1980" (Washington, D.C.: U.S. Government Printing Office).

[2] 1979 Household demographic and economic data (in 1970 constant dollars):

[3] The charges used in this table are the minimum price for basic service. The base price $5.51, assumes no real price increase from 1970 through 1979. The other cases reflect a 50 percent, a 100 percent, and a 200 percent increase respectively in the base price:

Variable	Unit of variable	Variable mean
Income adjusted monthly service charge	Dollars	5.61
Installation charge	do	7.34
Measured rate service	Indicator	.35
Age of head	Years	46.51
Income	$100	104.98
Age times income	$100-years	488.26
Persons per household	Number	2.75
Education	Years	11.73
Urban	Indicator	.86
Black	do	.11
South	do	.32

Variable	Unit of variable	Variable mean
Employment	do	.69
Other male head	do	.02
Male individual	do	.11
Female individual	do	.58

In order to evaluate the effect of price on subgroups, individual variables were changed. The age of head of household was set equal to 25.00 to estimate percentages for the subgroup young. The variable age × income was set equal to 215.42 for moderately poor, 103.05 for very poor, 262.44 for all young households, 215.79 for young moderately poor, and 55.39 for young very poor. For moderately poor the income variable was set equal to 46.31 which represents the mean household income for households in the lower half of the income distribution. For very poor the income variable was set equal to 22.16 which represents the mean household income for households in the lowest 20 percent of the income distribution. For black, the race variable was set equal to 1.00, for rural the urban variable was set equal to 0.00.

Source: Household demographic and economical data: U.S. Department of Commerce Bureau of the Census, "Money Income of Households in the United States: 1979" (Washington, D.C. U.S. Government Printing Office). U.S. Department of Commerce, Bureau of the Census, "Household and Family Characteristics: March 1980" (Washington, D.C.: U.S. Government Printing Office).

Senator STEVENS. Mr. Hamlen, do you have a statement?

Mr. HAMLEN. Yes; I do.

Good morning, Mr. Chairman. I want to thank you for this opportunity to present testimony this morning. I am with United Utilities, Inc., a native-owned telephone utility serving 22 villages in western Alaska, including Savoonga, which was mentioned several times this morning.

We are in the process of constructing telephone facilities in 19 other villages and we presently have an application before the Alaska Public Utilities Commission to serve another 11 villages.

Our service area currently includes 41 villages scattered over 50,000 square miles of territory that experiences some of the harshest weather conditions in the world. Most of the residents of these villages are Native Alaskans, many of whom work on a seasonal basis and live a subsistence lifestyle.

These villages have populations ranging from 50 to 600 residents. Average family annual incomes are often less than $6,000. Due to the inaccessibility of items such as groceries and repair parts—items that people living in urban areas often take for granted—long distance telephone communication with the outside world is most essential.

United Utilities was incorporated in 1977, 1 year after the State of Alaska appropriated $5 million to install satellite Earth stations in 100 remote Alaskan communities. It was these satellite Earth stations—engineered, purchased and constructed jointly by the State of Alaska and RCA Alascom—that made village local telephone exchange services and United Utilities possible.

A typical United Utilities village telephone distribution system includes a cable from the satellite Earth station to a 16- by 24-foot building housing a telephone switching system. This switching system is interconnected with village subscribers with an aerial cable distribution system. United Utilities trains and employs local Native residents to aid in the construction of the village telephone facilities and to operate and maintain these systems after they have been installed.

Having a local representative is imperative due to the remoteness of these locations and their inaccessibility during bad weather. Additionally, this opportunity for employment is welcomed since there are often very few other village employment opportunities.

Proposed legislation and regulatory actions encouraging competition in the telephone industry could be potentially harmful, as well

as beneficial, to rural Alaskan telephone subscribers. Since rural telephone users rely very heavily on the telephone to place toll calls, revenues from toll settlements largely support rural telephone operations. The toll settlements process provides the vehicle whereby telephone companies can recover their cost of providing toll service. This is accomplished via a pooling and distribution of telephone network toll revenues.

This revenue sharing allows toll revenues from largely populated and lucrative markets to be used to fund the cost of basic toll telephone service to citizens living in remote locations. Rural telephone subscribers, not only in Alaska but also in the lower 48, are naturally very concerned that no legislative and regulatory actions be taken in the name of competition that would in any way endanger this sharing of toll revenues.

Should this existing system of distributing toll revenues be changed in such a way so as to curtail, or reduce, the present distribution of dollars to rural areas, the costs to rural subscribers could become prohibitive. The Nation's longstanding goal of a national telephone network with universal service at affordable rates may become unachievable, if legislative or regulatory actions are taken to reduce the existing level of toll revenues to rural telephone companies.

While the impact of changes taking place at the Federal Communications Commission and Congress on toll settlements is unclear, United Utilities is very supportive of the procompetition position being furthered by the Federal Communications Commission in its October 29, 1980, notice of proposed rulemaking. This proposed rulemaking in the matter of policies governing the ownership and operation of domestic satellite Earth stations in the bush communities in Alaska, if adopted, would allow local exchange carriers to own and operate the satellite Earth stations located in the villages they are serving.

The Federal Communications Commission's proposed rulemaking has considerable merit since the present service arrangement of having the State's long lines carrier maintain these facilities is inadequate and not cost effective. Significant oerational and community benefits will be achieved if the Federal Communications Commission proposed rulemaking allowing rural Alaskan exchange carriers to own and operate the Earth stations is adopted.

In summary, United Utilities would like to recommend to the members of the panel that they not overlook the longstanding national policy of a national telephone network with universal service at reasonable rates. The furtherance of competition in the telephone industry is a worthy objective, but it should not in any way further limit the availability of basic telephone service by changing the existing procedures of pooling and sharing toll revenues.

Additionally, the shareholders of United Utilities, four native Alaskan village corporations—Hooper Bay, Gambell, Savoonga, and Togiak—are thankful that the Alaska Public Utilities Commission has given them the opportunity to own and operate the local telephone systems in their villages and other villages in their area.

Our shareholders are hopeful that the Alaska Public Utilities Commission, the Federal Communications Commission and Congress will continue to recognize the telecommunications needs of

rural Alaskans, and, as importantly, recognize the desire of rural Alaskans to participate as owners, managers and employees in the businesses that deliver these services.

Thank you.

Senator STEVENS. Thank you very much.

Mr. Pistorius, you seem to be worried about the end-to-end service responsibility coming to an end. Is it not possible that the same universal service objective can be accomplished without having it imposed upon one entity such as the public utility?

Mr. PISTORIUS. I am sure it can be. Some of the concerns, of course, are the industry courses that set standards in the past—and I think the standards of the United States have been the highest in the world. Now we are going to find that the standards will be set by the consumer and that is not all bad. He will pay for the different rates. Say, he does not mind getting a busy signal half the time; he probably will have a cheaper rate.

I do see some of the things that we have enjoyed because of this end-to-end responsibility not being the same, at least for all Americans.

Senator STEVENS. Did you have any problems with S. 898 with regard to the end-to-end responsibility? Is that what you are talking about now?

Mr. PISTORIUS. I concurred with that; yes.

Senator STEVENS. Now, Mr. Hamlen, as I understand it, you seem to indicate that your organization and those similar to it are going to be helped by the FCC proposed rulemaking. Do you feel that there is a need for Federal legislation such as 898 to continue your activity? Is that going to impact you as much?

Mr. HAMLEN. Yes, I believe that S. 898 provides a mechanism for the reallocation and redistribution of toll revenues to high cost rural areas to maintain basic telephone service. This need for reallocating toll revenues will still be there regardless of what happens in the Earth station ownership issue.

Local ownership of the Earth stations has two significant advantages. The first advantage is of an operational nature. It does not make sense having two companies providing telephone service to remote villages. In Savoonga, for example, there is a duplication of costs and operational inefficiencies, with two communications companies with separate facilities—one for toll interconnect and one for local service. The second advantage is that the savings realized by local ownership will reduce the distribution of the toll revenues that are required from the more densely populated areas.

Senator STEVENS. What about the responsibility factor? We work on the concept that if someone is in the service, a man or a person somewhere in the lower 48 places a call, the system is comprised of organizations that are responsible to see to it that a phone call it places in the lower 48 is going to go through to Savoonga and that has been one of the concepts.

If the FCC does indicate that local ownership of these Earth stations is to be the mode for the future, how is it going to assure that those local entities are going to provide the kind of maintenance and operational efficiency that has been required of the major utilities in the past?

Mr. HAMLEN. First of all, the local utilities will be subject to the same regulations as any other utility providing the long line service. We look forward to improving the service by having in the village a local man that is trained and can conduct basic maintenance functions.

Having an employee in the village will often prevent someone from Anchorage or Bethel having to fly out to the village to do minor maintenance. Flying someone in can be very difficult and weather conditions that can be real severe. Service outages with the Earth station facilities often take days to repair since no one is now on site that can work on them. We look forward to the service in the rural communities to improve substantially with the transfer of the ownership to the local entity, and we believe that the mechanism devices to protect an acceptable level of service are built into the system.

As any other provider of a public service, if something were to go wrong, the local carriers would be subject to the same regulations and if an acceptable level of service were not being provided, the local carrier would lose its license to serve the public.

Our objective, our major thrust, is to get the inefficiencies and the cost effectiveness out of the system and to improve the operation of the village Earth stations and hence improve the service to our customers.

Senator STEVENS. It is dependent on some form of revenue sharing for you to have the ability to do that; is it not?

Mr. HAMLEN. Yes; as it now is with the Alaskan long lines carrier and with any other carrier. It makes no difference who owns it in terms of the need for revenue sharing. Local ownership will, however, reduce the amount of revenue sharing required.

Senator STEVENS. Do you have anything else, Mr. Pistorius?

Mr. PISTORIUS. No; I do not.

Senator STEVENS. Thank you both very much for your help in making this record.

The last witness, I think, before lunch will be Mr. John McGill of Alascom.

The balance of those who wish to testify, I will have to tell you I am sorry, but I do not think we will be able to get to you before lunch, and it is my intention to come back at 1:45. If some of you are inconvenienced by that and cannot come back, if you wish to submit your testimony, we will put it in the record in full but you will not have the opportunity to answer any questions that otherwise take place.

Mr. McGill.

STATEMENT OF JOHN McGILL, VICE PRESIDENT OF REGULATORY AFFAIRS, ALASCOM

Mr. MCGILL. Thank you, Senator Stevens and members of the committee staff. I am John McGill, vice president of regulatory affairs for Alascom and I wish to express my own personal appreciation and the appreciation of the company for the opportunity that you provide to appear here before your committee.

As you know, communications in the State of Alaska have expanded dramatically over the last 10 years, passing from a very

limited and rudimentary system developed primarily to serve the needs of the military in the late 1960's to the present sophisticated satellite communications system which provides for service, not only to the larger urban areas of the State but also to over 140 small bush villages.

The development of satellite communications has overcome many of the previously insurmountable difficulties associated with the provision of telecommunications in the State. The harsh environment, the topograhical obstructions, and the distances involved in the State of Alaska would have made the terrestrial systems throughout the State prohibitively costly.

Although the satellite age has overcome many of these difficulties, the costs associated with providing such service in remote areas remains inordinately high, so much so that service is possible only because of support provided by the interstate and intrastate settlement pools, as well as by overall rate averaging, which draws on the high volumes to and from metropolitan areas to support the lower volume, higher cost areas throughout the State. It is against this complex of economic interrelationships that present efforts to install economic competition will work and will likely have profound effects.

The growth and development of telecommunications in Alaska occurred in a regulated, not a competitive, environment, based on precepts antedating and now superseded in the lower 48 by the *Execunet* cases and current regulatory and legislative thinking on the subject. In the pre-Execunet world, regulatory power was used to enfranchise a limited number of service providers per service area.

Carriers were required to serve virtually anyone requiring service, no matter how uneconomical in the individual case, being compensated by a rate structure which, in effect, spread such costs among all users through the mechanism of averaged rates. In essence, some people paid more than they otherwise might, that all might be served.

This structure reflected the then-prevalent desire for universal service and the Alaskan telecommunications industry emerged in, was nurtured by, and reflects that mechanism. Expansion in the hundreds of millions of dollars has occurred here in the past decade, including an explosive growth in local exchange service to the bush made possible by and economically sustained through toll interconnection with Alascom.

Simultaneously, multiple reductions in interstate rate levels were obtained, as a part of the rate integration program of which you, Senator, have been a chief proponent and of which the people of Alaska have been the chief beneficiaries. The lynchpin for the simultaneous increase in investment and decrease in prices was subsidization—a subsidization at several levels made possible by Alascom's access to an interstate revenue pool fueled by averaged interstate rates.

All lower 48 long distance users paid a fractional amount more so that all Alaskans could join the network. This system was formalized in the Alascom AT&T settlement agreement which resulted from the joint board proceedings and was approved by the State of Alaska, the joint board and the FCC. This agreement is effective through December 31, 1984, a little more than 2 years from now.

All Alaskan telephone users and the industry here in the State owe you a debt of gratitude for your work on integration and in fostering the underlying arrangements which have made possible the progress to date. The rate integration policy has worked because the basic telephone industry in the Nation has traditionally pooled the costs of interstate long distance service and the revenues, so that uniform rates can be charged for calls no matter whether they involve low cost cities or high cost rural or remote towns or villages.

The costs for basic long distance telephone service, as I have suggested, are high. For every $1 charged for Alaskan calls, the interstate pool yields $1.50 in support of the Alaskan telecommunications network, long lines and local exchange, which makes that call possible. By 1985 the necessary support will have grown to almost $2 for every $1 billed to customers for Alaskan calls. And this does not take into account the cost of the lower 48 portion of the service.

NTIA has recognized that the annual subsidy needed to support Alaskan telephone service and continued development could amount to $150 million per year. If that amount of support is spread over all of the ratepayers in this country, it averages less than $2 a year per main station. If it must be assumed by Alaskan ratepayers alone, it amounts to almost $1,000 per Alaskan main station.

Senator STEVENS. I did not understand that.

Mr. MCGILL. If the support were supplied by the present mechanism that the NTIA has identified the subsidy required of $150 million would amount to approximately $1 a year for the people in the lower 48 to assist in the full development of Alaska.

The continuation of adequate support is essential both to the ratepayers and to the industry. Alascom has increased its settlement payments to the connecting companies as a result of its present arrangement with AT&T. It has recently offered a further proposal for additional increases in settlements to the local exchange companies of the State, all without any concurrent rate increases.

Moreover, if further continued support from AT&T were obtained, positive interstate rate decreases could be achieved, bringing about the benefits of rate integration well before 1985. The benefits of such asistance from the lower 48 have been and will be flowed through by Alascom to its connecting companies and to the people of this State.

These benefits and the structure which makes this possible, however, are threatened by the substantial changes which have occurred in the communications business since 1977.

In the post-Execunet world we are now discussing, rates will be tied to market conditions, not to regulatory goals. Competition, rather than regulation, will be installed as the mechanism for contolling and reducing rates. Competitive pricing presumes rates which reflect only attributable costs, thereby economically encouraging and rewarding those who can serve at the least cost.

Subsidy presumes the precise opposite, that rates are not alined with costs. Some rates are more than attributable costs, permitting other rates to be less than costs. In a free market competitive environment, subsidy is economically fatal to the subsidizer, because it

artificially inflates costs and thus invites competitive displacement by anyone not charging such a subsidy.

The question we face here is whether these principles are appropriate for Alaska, and the answer, of course, depends in substantial part upon what the likely effects of their imposition will be upon the State. Alascom is concerned by what it has viewed as a willingness on the part of those who, in analyzing the telecommunications industry in a lower 48 context, have concluded that risks associated with such major changes are minor when compared to the benefits thought to be achievable through a high level of competition.

No doubt, for some there will be benefits, since certain rates will diminish as the subsidy costs evaporate. For others, the impact will be detrimental, as their rates increase to recover costs previously covered by the now-absent subsidy. It is this downside, particularly in the context of Alaska and not the lower 48, which seems to me to have been minimized or overlooked altogether in an effort to achieve the goal, no longer of universal service, but of market choice.

That downside potential is not legitimately answered by rhetorical appeals to competition as a traditional way of life in America. Alaska, from 1867 to 1971, offered an open, free market for telecommunications development. The response was, of economic necessity, a substantial default by the private sector, with consequent limited and direct provisioning of service by the Federal Government.

Private service provisioning on a large scale has taken hold only in the last decade, not because of competitive conditions but because of a complex chain of subsidies created and supported by regulatory authority. Alaskan telecommunications today are a product of regulatory goals, not market forces, the principal one being universal service.

Those who now argue for removal of this regulatory complex in favor of those unregulated market forces have, I believe, a burden to demonstrate with specificity how progress, rather than retrenchment, will result from the removal of the precepts which have manifestly succeeded thus far in Alaska.

In analyzing particular aspects of this downside, the company has concluded, Senator, that one of the first casualties of competition may be the longstanding effort toward rate integration. Integrated rates, as I have suggested above, are a form of subsidy effected through the mechanism of averaged rates.

Competitive pricing and averaged rates are, as I have also suggested, antithetical to one another. In the specific context of Alaska, Alascom's rates for traffic to and from the lower 48 are subject to competitive pressure because today a competitor can clearly offer at least certain services at rates lower than Alascom. This is true for two reasons.

First, competitors have a present advantage stemming from Alascom's responsibility to serve virtually anyone at a uniform rate for class and use of service. Alascom must provide service, not only between Anchorage and Seattle, a high-density route, but also between Seattle and Anaktuvuk Pass, Barrow, Anvik, Koyukuk, Ouzinkie, Tenakee Springs, and other low-density routes and at uniform rates per class of service, per minute, per mile. A competing

carrier, unlike Alascom, may serve only the Seattle-Anchorage high-density route and avoid the costs of serving the low-density, bush regions of the State.

Since it is not clear what additional amounts, if any, a competitor will bear to subsidize service to the bush, a competitor can at this time price the Anchorage-Seattle route charges at a level lower than Alascom's. If, indeed, the competitor is required to contribute to the Alaskan "safety net" his burden would be more comparable to Alascom's. But, short of legislation for Alaska, the regulatory trend appears to be heading in a direction adverse to Alaska.

Second, a competitor does not have the responsibility or the necessity to provide alternate routes in order to assure redundancy in case of major outages. Alascom is presently completing construction of a second alternate terrestrial system, the Alaska Interstate Microwave System, AIMS, at a cost in excess of $45 million. In contractual negotiations for purchase of its own satellite, Alascom made arrangements for an inspace backup satellite in the event of catastrophic failure. Further, in our negotiations we provided for a third satellite on the ground to be launched as a backup if required.

Such protection of the primary satellite over the life of the satellite is provided at a cost in excess of $7 million annually. These protections are not a product of competitive marketing strategy, but evidence the responsibility of a public utility in a pre-Execunet context to insure alternate routing and redundance in furtherance of the public convenience and necessity.

Because Alascom's facilities exist, however, other competitive carriers may forego equivalent expenses, secure in the knowledge that if their own systems fail Alascom's will be available to them as backup. The competitive carrier has neither an inducement nor a requirement, in a competitive market, to share in Alascom's costs for this protection.

There is yet another problem. Continued interstate support at present levels is far from assured. Changes in FCC policies and the major restructuring of the American communications industry that will result from the AT&T divestiture are creating growing pressures to abandon some of the underpinnings of the support on which Alaska depends so heavily.

The FCC has been rapidly substituting competition for regulation under the public-interest standard on the theory that competition will accomplish public interest goals without the need for Government intervention. Unfortunately, the growth of competition has given rise to strenuous economic arguments against the kind of cost averaging and cost sharing that has permitted rate integration for Alaska and the extension of long-distance services throughout the State.

For example, the system of cost allocations which has resulted in the substantial interstate contribution to Alaskan telecommunications costs that I described earlier is now under attack, mainly because of a desire by competing interexchange carriers and AT&T to reduce the interstate contribution in order to improve competition in long-distance service and reduce interstate rates.

The FCC is also looking at changes in the way telephone companies are compensated for their participation in the basic nation-

wide long-distance network. The FCC has recognized that some of the approaches it has in mind may lead to deaveraged toll rates and the elimination of the rate integration policy which has been central to the communications policy you have advocated for many years.

The AT&T antitrust settlement, by divorcing AT&T's long-distance and local-exchange operations, may well reduce its willingness to continue support for high cost areas like Alaska. For these reasons, therefore, there is no basis for a conclusion that the AT&T settlement makes legislation unnecessary.

What all this adds up to is a grave threat that the rate averaging and cost-sharing policies, which have fostered the development of affordable communications for Alaskans, will not survive the new era of open competition. Given these sources of pressure, it should be clear that Alascom would not remain complacent in the face of rate competition. If necessary, in order to retain our share of the market, we will price our high-use routes competitively.

We will be forced to abandon the rate-averaging philosophy which has served the State of Alaska so well in the promotion of universal service at affordable rate—a philosophy which represents the cornerstone of rate integration. By undertaking such measures, Alascom will not experience a dramatic reduction of expense, but rather of revenues, on some of its routes.

With the disappearance of these revenues, Alascom will be required to increase rates for other services, including those to remote areas of Alaska, where service is now provided at rates lower than associated costs. Bottom line: Some people living in metropolitan Alaska could benefit from competition while the rest will foot the bill.

In particular, my analysis of change suggests that competition in Alaska will benefit the customer who uses high levels of toll or private-line service. These customers will be the military, Federal/State government agencies, large businesses, and affluent individuals. Those who will not benefit are the ordinary Alaskans, those who live in areas where competitors fear to tread, and those least able to pay for the benefits accruing to the high users.

Even though the lower 48 has developed its telecommunications system to a degree where the impact of competition could, overall, benefit the general body of ratepayers, such is not the case in Alaska. Some people will benefit; others, probably the disadvantaged, will be hurt. Some rates will decline, as many may increase, and any resemblance of individual rates to the integrated, averaged-rate levels, made the object of past rate integration efforts, would be purely coincidental.

As an example, many Alaskans will be unable to pay the future costs of long-distance calls. Put another way, every 10 cents of support per year per main, station, from all interstate customers, represents an extra $100 per year per main station in rates for Alaskans. An independent study of bush service prepared for Alascom by SRI shows that bringing local exchange telephone service and toll access to 158 Alaskan villages will require annual revenues of approximately $6,000 to $8,000 per main station, for the facilities at bush locations alone. This compares to a nationwide average of $600.

If the burden fell on the intrastate pool, rates would have to increase by 63.1 percent to cover the deficit in revenues. If bush villages had to bear the costs of service without substantial assistance from interstate or intrastate toll, bush villagers would have to pay from $350 to more than $500 per month for local access. Clearly, this would not be universal service at reasonable rates.

The problem posed by the potential deaveraging of rates and the demise of rate integration represent only one area of concern. A second area involves proposed changes to separations and settlements, or the substitution of access charges for settlements. If a competitor for message toll-like services—Sprint, Execunet, et cetera—in Anchorage handles two calls, both from Seattle, but one terminating in Anchorage and the other in Deering, the competitor will reimburse at least part of Anchorage Telephone Utilities' associated costs by means of an access payment.

I trust ATU would remain whole in this transaction, as Alascom would not pay settlements for these calls between Seattle and Anchorage. In the case of the call to Deering, such a call will come to Anchorage and at that point enter the toll network of Alascom—from Anchorage to Deering. Alascom must pay the local company at Deering, OTZ Telephone Cooperative, either settlements or an access charge, depending on the outcome of regulatory or legislative activity.

The competing carrier will not reimburse Alascom for this access to OTZ, nor will ATU, as far as we can tell. Alascom must therefore recover its full costs for its service to Deering from the rate charged between Anchorage and Deering. For the reasons and in the ways set out above, our present rates for this service are not fully compensatory. Thus, we would be required to increase the rate for such service.

The number of people calling to and from Deering, Alaska, is, as you might imagine, relatively small. The impact of any increase, accordingly, will be disproportionately large to the individuals affected. This is a foreseeable consequence of competition which those favoring competitive entry must balance against the benefits to the large users, principally government and big business.

This touches upon a third area of concern. In the drive to install competitive mechanisms at the Federal level, inadequate attention is often paid to the legacy to be left the State jurisdictional entities. Alascom has had only one general intrastate rate case in 11 years. Incorporated into that case were allocations based upon the Ozark Manual, tending to further the subsidization by interstate rates of State activities.

Moreover, settlement factors involving AT&T, which factors were positive in terms of reducing the burden on State rates, were also considered. Nonetheless, an increase in interstate rates of 83.4 percent was obtained and sustained. As a consequence, in 1980 the toll disparity for intrastate toll-calling in Alaska was the highest in the nation.

With the introduction of competition and the attendant elimination of subsidies, State rates will be driven higher, without any ability or resource on the part of the APUC to correct the situation. The commission, it should be recalled, has jursidictional au-

thority only to adjust State rate structures, which is to say, either long-line rates or local exchange rates.

The effect of the Alaska Commission's actions, obviously, will be like squeezing a balloon. Compression on one side will result in expansions on another. This is as in other areas. Alaska as a whole is in danger of suffering substantially in the area of universal telephone service from the introduction of competition and changes to settlement arrangements.

A recent study by the APUC staff concludes that a change of separations methodology from SPF to SLU by the joint board would result in an increase of local revenue requirements, ranging from 42 percent for the Copper Valley Telephone Cooperative to 452 percent for Bristol Bay Telecommunications Cooperative. Anchorage local rates would increase 53 percent. This is a preliminary study, but obviously identifies a severe problem for Alaska.

Alascom has historically agreed, as have many others, that Alaska is indeed different from the rest of the country. We recognize that Alaska's development of telecommunications has been fragile and costly and sustained solely by an intricate regulatory matrix. Therefore, we have and will continue to speak against the undesirable consequences of these proposed changes.

Alascom, however, is neither unprepared nor unwilling to accept the change to competitive, free-market activities. That, of course, is because Alascom, as an operating entity, can adjust to such change by making economically required alterations in its operations, several of which I have suggested above. We have modern equipment and knowledgeable personnel, and believe we can hold our own in the marketplace.

The people of Deering and most areas of the State, however, do not enjoy such latitude and may well suffer accordingly. The company does not think that result desirable, necessary, or correct. We have said so repeatedly. We do not intend to shoulder the adverse public reaction that a policy of competition may well engender, which burden properly belongs with its advocates.

Given the circumstances that I have outlined, I would like to review briefly Alascom's past role with regard to specific legislative or regulatory proceedings now current in Washington.

In Senate 898 we actively participated in an attempt to insure that the continued provision of telecommunication service in Alaska would be protected by the introduction of a safety net. As the result of your efforts and the efforts of your staff, unique problems associated with the high cost of providing telecommunication service throughout the State of Alaska were recognized. Competition, however, was provided an open door into Alaska in that legislation which necessarily means that some adverse effects or, for example, the deaveraging of rates would of necessity follow.

We also have a problem definitionally in legislation today. We would fall in the category of an interexchange carrier. Much of the legislation is designed to address the problems associated with AT&T provision of service to its competitors. But because definitionally we fall into the same pot, we are treated very much like AT&T and unfortunately that does not provide for the payment of access charges to Alaska.

We did, through your good efforts, achieve in the Senate bill a clarification of this, so that the support mechanism necessary for Alaska and for its connecting companies would be payable. However, in the House bill we did not have this success and in the House they were not very interested in talking about the specific concerns that we had for Alaska.

With regard to legislative changes to the Communications Act of 1934, Alascom has actively participated in an attempt to assure that the continued provision of telecommunications services throughout the State of Alaska would be protected by the introduction of a safety net mechanism based on surcharges to access rates. As a result of the efforts of your staff and your own personal involvement, Senator, unique problems associated with the high cost of providing telecommunications service throughout the State of Alaska were recognized.

Competition, however, was provided an open door, which necessarily means that some adverse effects—for example, the deaveraging of rates—would transpire.

Legislative language regarding access payments to local exchange companies is clear in the past bills. However, because Alascom is definitionally an interexchange carrier, it is diffcult within the framework of the legislation to provide for a method of access payments by other interexchange carriers directly to Alascom and, through us, to others in the telecommunications industry in Alaska.

This is critical because unless clear provision is made for payment of access changes to Alascom in any legislation passed the entire system of indirect subsidy of local exchange companies, particularly in the bush, will fail. Of the total operating revenues received by the 26 local exchange companies in Alaska, 56 percent are from settlements paid by Alascom to these companies.

For bush companies, these revenues amount to 78.8 percent on average. The company cannot pay what it does not have. If Alascom does not receive adequate access payments or other revenue support, its ability to make these settlement payments is jeopardized and industry in Alaska will be shaken to its roots from the ripple effect.

In FCC docket 78-72 Alascom has presently pending before the FCC a petition for reconsideration urging the limitation of open competitive entry into Alaska. In the more recent fourth notice of inquiry in this docket involving development of access charges designed to replace settlements, Alascom has not filed comments in support of the unique position of the development of telecommunications in the State of Alaska.

The company has not attempted to provide input to the FCC regarding access charges at this point in time for procedural reasons, pending the outcome of its outstanding petition for reconsideration.

In FCC docket 80-286 involving modifications to be made to the present method of separations and settlements, Alascom's parent company, Pacific Telecom, Inc., has participated in this proceeding by proposing an industry plan which would mitigate the adverse impact that a sudden change from SPF to SLU might have on rural high cost serving areas. Any accommodations related to these concerns raised by Pacific Telecom, Inc. would prove beneficial to

many of the local operating companies throughout the State of Alaska, but short of what is really needed.

With regard to the proposed consent decree and the AT&T/Department of Justice settlement plan, Alascom has taken no formal position but obviously is analyzing the Court's decision and its possible effect on communications in Alaska.

Neither the House, in H.R. 5158, nor the FCC, in its multiple proceedings mentioned above, nor the courts in the AT&T settlement, has undertaken the measures necessary to prevent the severe problems I have discussed above. Further legislation is clearly required.

Our posture in these matters, as in my testimony here today, is basically the same. We are attempting to draw attention to the negative effects competitive free market service provisioning will likely have in Alaska, on the Alaskan people and on many of the local companies which presenty provide them service at reasonable rates. In my view, the benefits to be afforded the few as the result of competition will not outweigh the detriments suffered by the many.

We have and will continue to hear much about the former but the proponents of competition have been vague in the past about the latter. I think the people of Deering are less interested in the intellectual niceties of Adam Smith's economic theories, and more interested in the practical realities of whether they can afford to have and to use a telephone.

In conclusion, I again would like to thank you, Senator Stevens, and your staff for the opportunity you have provided for me to appear today and for your constant concern for the problems of telecommunications in Alaska. The development of telecommunications throughout the State of Alaska for all of its citizens, at rates which are reasonable and affordable, is a goal common to us both. Your continued assistance in achieving this goal is greatly appreciated, for good telecommunications for all citizens.

Senator STEVENS. How much are you getting now? This $150 million you mentioned, what is the actual dollar value that you are getting now?

Mr. MCGILL. In settlements from AT&T?

Senator STEVENS. Yes.

Mr. MCGILL. I do not have that figure, but I certainly can provide it to you. I would think it is well within that range, though presently we pay out—I think we project this year we are paying out in settlements over $90 million.

Senator STEVENS. I do not think anyone is suggesting the telecommunications service should not be available to Alaskans on a comparable-cost basis of that in the lower 48 and there has been no indications of anyone I have dealt with either in the executive or in the legislative branch that would abandon the concept of rate integration.

You seem to feel that this is the goal of some of the people in the move toward greater competition.

Mr. MCGILL. I do not think it is necessarily the goal. I think it might be the inevitable result. I think people are attempting by the introduction of competition to provide maybe better service or lower cost service, but at the same time in order to introduce com-

petition some of the support mechanisms that are presently provided within the industry must go away.

Senator STEVENS. I think you read too much into the differences between the House bill and the Senate bill and between what the FCC has announced in its proposed rulemaking what it will finally do. It is a question again of the involvement of those of us who represent Alaska, but I have never worried about the differences between the House bill and the Senate bill in that regard because they would be subject to a conference committee, and we have every reason to believe that we would succeed, once they heard the articulation of the particular Alaska problem and the provisions we need to protect Alaska.

Similarly, the FCC has to come before us for biennial appropriations, and to review its activities. I cannot envision that they will cast Alaska adrift in a move toward assuring better service through competition in a manner that would eliminate the rate integration progress we have made. If they did, they would have to cut off Hawaii and other rural areas of low density too in the country.

I think you have expressed some fears, to me at least, that are not well grounded in terms of the background of the people who are working on the problem now.

Judge Greene's approach is another matter. He is a little bit more constricted in what he can order as a result of that settlement, as everyone points out, but AT&T is not operating up here. It is not the problem of settlement. It is a problem that we are outside of the settlement that we have got to address and hope everyone will keep that in mind.

I appreciate your concern and appreciate your working with us and I assume you still support S. 898?

Mr. MCGILL. Oh, yes.

Senator STEVENS. Good. Thank you very much.

We will adjourn now for lunch and be back at 1:45.

[Recess.]

AFTERNOON SESSION

Senator STEVENS. Back on the record.

Mr. Gould, would you like to be our next witness, please?

STATEMENT OF ROBERT GOULD, PRESIDENT, MULTIVISIONS, LTD.

Mr. GOULD. Good afternoon, Senator and staff members.

I previously submitted written testimony which I will not repeat at this time simply because it is more my style to ad lib and be informal.

My name is Robert Gould and I am president of Multivisions, Ltd., which is the certificated cable television utility for Anchorage and Eagle River. We were also recently awarded the cable vision authority for Kenai and Soldotana. In addition to that, we provide cable service under contract to the Federal Government at Fort Richardson and Elmendorf Air Force Base.

In addition to cable television, my company is involved in operating a company called—a product line called Visions, which is the

over-the-air pay television service here in Anchorage, Alaska. That was our initial business in addition to cable.

Finally, we also program nine basically mini-TV's as I referred to in my testimony, essentially the equipment of SMA TV. That is satellite television systems for the Alyeska Pipeline Service Co. We also installed those systems for Alyeska.

Now we operate the programing service on all. We provide pay television in one form or another, or subscription television is perhaps a better term, to approximately 15,000 households in Anchorage, and that represents about 45,000 people. To the best of my knowledge, that is the largest subscription television operation in Alaska.

In addition to myself and other principals, I should also disclose, I guess, that Alascom, who has previously testified this morning, has a minority interest in our company. But I am not appearing on their behalf because they certainly can speak for their own needs. I appear on behalf of our company, the Alaska Cable Television Association, of which I am president, and in a more subliminal way in behalf of the MDS industry in my capacity as vice chairman of their major lobbying organization or trade association—perhaps a better description.

I have listened briefly this morning to some of the comments made by other entities within the State and perhaps unlike some of those or all of those, we do not have too many major complaints with Federal legislation. Of late, Federal legislation has been in large favorable to the cable industry and, for that matter, the prognosis seems to be more of the same thing.

I would note that you, Senator, have been supportive of most cable positions as an industry and we personally appreciate that.

I think it is important, though, to understand our concerns about any future Federal legislation. First focusing on the communications environment in Alaska, I think that is relatively unique. Everybody else has been saying that. I will not want to be repetitious, but that is the context in which my remarks are being made.

I would like to point to a few examples; some perhaps you have heard of today. We are, obviously, a large land mass with very few people, and those individuals are separated into many isolated communities. In my view, unlike many other States, perhaps all other States, communications here in Alaska are not only necessary but absolutely vital.

The State has recognized this and it has taken a very active role in regulating and promoting greater communications, primarily most of the activity in the last decade as State revenues have permitted that situation to occur.

There are now two publicly funded channels of television delivered to a substantial number of communities throughout Alaska, mainly the rural areas. For the entertainment channel, that goes into over 150 communities right now and there is an educational channel that started out operations last year. I am not exact with how many communities that is in. It is fewer than 150, but the long-term goal is to duplicate that service all over Alaska—for that matter, urban Alaska as well—for the educational service.

As you heard previously this morning, there is dial up telephone available Statewide at this point in time. What is significant from

the standpoint of our industry is that once the remaining urban markets of Alaska are built—and those are the Anchorage system presently under construction, Matanuska Valley, and Kenai and Soldotna, which will be built next year—over 90 percent of the State's population will have access to cable television.

That is something no other political jurisdiction in this country can even equal or come close to equalling. That gives our industry not only the opportunity but, I think, also the responsibility to play an extremely vital role in what happens as far as communications development in Alaska is concerned.

Without meaning to talk too much about my own company, I will point out where cable television has been and what state it has gotten to over the past 20–25 years of its existence in Alaska. The original cable systems in Alaska were built mainly in the isolated rural areas where there was no other form of video information or entertainment.

It was done by the original cable pioneers and they delivered one, maybe sometimes two, channels of video entertainment via videotapes sent up from Seattle or somewhere else in the lower 48 showing network programing with anywhere from a 1 to 5-week delay. To a certain extent, that still happens in many of the rural communities.

In addition to those one or two channels of video entertainment, sometimes they had an AP news wire, maybe a weather channel, but that is pretty much the extent of the menu and at that time in Alaska, those portions of Alaska, that was considered to be a major accomplishment. Those original enterpreneurs have either sold out and given way to, or themselves in certain cases developed into relatively sophisticated cable television operators, so that right now in every cable television system in operation in Alaska there are at least 12 channels of television and most of that is fully operated and delivered in most of those communities.

Each cable system has at least one and sometimes two operating Earth stations and interconnected by satellite with the programing service in the lower 48 and delivering more than entertainment now—delivering financial service, weather service, a typical cable television menu that has expanded just beyond a tape-delayed network program. A culmination of that, at least for the near future, will be our system in Anchorage which right now delivers 35 channels of cable television to the two military bases and was built more than 2 years ago. In the civilian community of Anchorage, we will be providing 54 channels, more than any other system for in the United States serving community of this size. Ultimately the military bases will also have a 54-channel capability. In October about 44 of these channels will be operational on a full-time basis.

We are building a system that also involves two-way capability here in Anchorage. It will encompass a two-way activated institutional loop connecting the public buildings of the governmental agencies, the municipal agencies and hospitals and schools and the like. It will be fully addressable. That is, each subscriber's home in Anchorage will have a capability of selecting their own menu of programs and services without having any representative of our company visit their home. They can change their level of service via the set-top converter delivering television programs.

All of this will be accomplished with an Earth station network that has a capability of receiving from eight different satellites simultaneously, and that capability is also greater than any other cable television or even telecommunications entity in the State.

My only point in bringing this all out is to show that cable television under the past regulatory environment has developed, in my opinion, in a very significant way in Alaska, and mainly because most of the Federal regulations were administered and modified as local needs dictated by the public utility commission that took over the jurisdiction of cable approximately, I believe, 13 years ago.

It is important to know that in Alaska cable television, unlike most other political jurisdictions, is regulated at that State level by the Alaska Public Utilities Commission. Therefore, we as an industry do not deal with city franchises and franchise fees, mandated access by city governments. We do not have any real problem on franchise durations. Also of significance as far as our operations in Alaska for the moment and through at least next June—and in my opinion longer—we are economically deregulated as to rates.

Two years ago, the Alaska legislature, with the urging of the Public Utilities Commission, experimented with rate deregulation of cable television, I think it has worked successfully in the consumer's best interest and I believe you were told that by Commissioner Weatherly this morning, who urged that that status be continued. I expect that will be the case from this current legislation when the sunset review comes up for the evaluation. Given the communications environment in Alaska, the way cable television operates here is in some respects a little different than the rest of the country.

Now what are our concerns about future Federal legislation? Most of them relate to how regulatory entity that is the State, handles competitive services with private cable operators and, in this respect, we are no different from other services I mentioned before.

The major complaint that we have in Alaska, referenced more with the State government rather than the Federal Government, is that we are increasingly finding ourselves competing with publicly funded entities.

I mentioned the two channels of television programing delivered to all the rural communities and a fear—that is not too strong a word—is that what is now two may become three in the near future and four in many more.

A typical pioneer cable operator many years ago invested his capital to develop those communities under a given set of circumstaces, one of which was the little likelihood that other private sector technologies would be competing because of the size of the marketplace. He now finds himself up against competition with an unexpected wrinkle of publicly funded entities coming in there. In some cases these are beneficial services that may meet a legitimate need and are—properly done by State entities. But certainly in delivering entertainment services they offer an element of competition not received and basically without incentive that any other private sector entity delivering that type of service would be operating under.

To a certain extent that happens at the local level, at least in three communities—which is in Anchorage, as well as Fairbanks

and Ketchikan—where the telephone utilities happen to be municipally owned. The fear there is one of appearance rather than reality and to date there is no knowledge that the telephone utilities have attempted to use the publicly funded leverage, if you will, to unfairly compete with cable operators.

But that possibility exists and given their loss of revenue from other more traditional telephone utility sources, long lines settlements and so forth, the question is what that will mean when telephone utilities may try to compete with cable television operators locally. Now this would not be probably for entertainment services. It more relates to data transmission and other enhanced services, as we in the industry call them.

Again, the focus is not so much on telephone utilities as an entity. It is when it is publicly funded. Theoretically they have unlimited funds with which to combat private sector competition and no private sector incentive for bottom line profit and loss.

The other concern that I have—and this one specifically goes to S. 2172, is the question of establishing a national policy, perhaps at the expense of all local input and control.

As an industry, we applaud the idea of establishing uniform cable television policy.

I think it is good idea to establish a national policy or at least to that point that will standardize how cable television is operated in various communities. But the legislation as I read it and interpret it does not provide, however, for customization of regulation that may be unique to Alaska. Certainly a situation existing in very few States, is the situation where it is not a municipal entity that is regulating cable and relying on outside consultants, but a well organized professional body with expertise that has had responsibility—that is, Alaska Public Utilities Commission here in Alaska.

I would like to see it, bill number S. 2172, provide for two—well, at least the option of amendment by a professional body similar to the PUC. In Alaska's case it would be that body. Tailoring, customization, as you will, the provision provided for in S. 2172, where local needs would dictate and those may be local circumstances that are procable or anticable. But our feeling as an industry is that a professional body that has the constancy of legislation—rather, regulation—over a number of years is better suited to assess what unique wrinkles Federal legislation may not adequately address than, with all due respect, the Senate committees can or other aspects of congressional legislation.

So as I understand it right now in S. 2172 there is little capability for providing for customization—that is my term but that is not a very good one—of the mandates provided by S. 2172 with the exception of going above and beyond the requirements provided in there. And I suppose that right is reserved to cities.

I do not think the PUC situation was thought of when S. 2172 was considered. It was not apparent, and in the case of Alaska we as an indsutry would feel more comfortable dealing with a local professional body in terms of addressing our needs rather than Congress. That, I am sure, is the view held uniquely by us as opposed to the rest of the cable industry and on this particular point, we and our national organization would part.

One aspect that relates to S. 2172 is the issue of theft of service, and here I speak now on behalf of the cable industry but also in terms of the MDS industry. It is already an acute problem for the MDS industry. I think it will become increasingly so for the cable industry. It was deleted in the markup—that is, section 705 in S. 2172—and while I understand the nature of the way the political process works and how that happens, I am here stating that for future reference in the future efforts at the Federal level, theft of service legislation is vitally important to the pay television industry in general.

We do not like to talk about it a lot, but I can tell you from the standpoint of an entrepreneur, that is, I see a substantial increase in theft of service in this particular area. The remedies with which to deal with that situation right now are totally inadequate.

There is certainly Federal legislation, otherwise referred to as section 605, that is available and has been resorted to successfully in some jursidictions in the lower 48. We have been totally unsuccessful, to date anyway, in getting any action from the Federal officials here in Alaska—and I am talking about criminal action for the moment—the U.S. Attorney's Office, and availing ourselves of that.

That is in the past and I believe may change in the future, but at the moment it has been a very frustrating experience trying to get any criminal activity implemented on the basis of 605 here. Whatever it is worth, there is also a State theft of service statute that has also been equally ineffective, and past efforts in Juneau have been unsuccessful in trying to get better legislation passed.

I know that the NCTA has been relatively silent on the issue of the theft of service, and I think that is probably why it went by the boards, in favor of other matters that are in their view more important than S. 2172.

In our particular case I can speak with firsthand experience. In Anchorage and also at the other MDS operator up in Fairbanks, it is a major issue here in this State. While the originally proposed section 705 of the Goldwater bill was not a perfect type of service legislation, it certainly was a good step in the right direction. That is clear and definitive language that will at least give the cable operators the primary responsibility for protecting their business and the wherewithal with which to do that.

I am talking now about criminal sanctions—that do not exist right now. You have only legislation authorizing lengthy and expensive civil litigation. This has proven to be very ineffective and therefore discourages the operator from attempting to avail himself or whatever the legislation has currently enacted.

There is another point that does not really pertain to this specific legislation, but does talk to what attitude you, Senator, and the other members of the Communications Subcommittee might want to act on. I pointed out in the beginning of my remarks that within a matter of about 3, at the most 4, years, 90 percent of the homes in Alaska will have access to cable television. This is unique, as I mentioned before.

If any entity within the Nation represents the potential for the wired nation that we speak, a lot of our industry but so far have not delivered in any measurable way, Alaska would be it. With the

interplay between the fact that most of our homes will have access to cable, the existing satellite network the State has funded and in my opinion is totally committed to maintaining, there is room for experimentation, development and making communities relate to each other as part of one entity. That potentially can pull the State together, and if that sets in, for example, we will derive equally beneficial effects for the rest of the country.

That does not relate in particular to any legislation now pending before you or in Congress, but it does relate to what might be done and encouraged here in this State. We would love to be used because we have—the cable industry would love to be used for any future experiments that might be thought up in Congress and approved by the FCC.

We have made this point as well to the officials of the FCC. Oftentimes, though, Alaska is easy to forget about. There are not many voices up here. Even our own national lobbying organization the NCTA, in all candor thinks only of Alaska any time they need to have grassroots lobbying done on their behalf. But there is more to it than that.

There is a potential for not only our industry, but I want to talk about the entire communications field as well, involving the private interconnect companies, Alascom, local telephone utilities and the State, which is an inextricably bound up part of the communications atmosphere here. to do some very exciting things and the Federal Government should be encouraged to do that.

I can cite one specific example. I do not want to take a great deal of time right now, but that concept is not always thought of when people here are arguing for their best interest. I would like to perhaps sound a more universal note. I was going to say altruistic, but I do not think that is right. I think it is a universal note, suggesting that we be a laboratory, if you will, for how communications can perhaps cause us to become better informed citizens and more communicative with each other, which we do not do a very good job of, in my opinion.

Part of that process relates to, hopefully, the ability to have coverage done in the Senate. That is already being proposed and I am talking about legislative coverage now, similar to what has been done in the House. Forgetting the merits of how it should be done for the moment, I can tell you from the little feedback that we have gotten in terms of delivering C Span to approximately 3,000 homes on the military base and occasional users of our MDS service here in Anchorage, that has had a very meaningful effect in terms of putting the Alaska constituents, at least psychologically, more in touch with their legislators.

We are proposing a similar concept and the Alaska cable industry is proposing a similar concept for coverage in the political process in Juneau, where the capital might wind up being, but I think it serves as a microcosm of the Nation as a whole, although I would hope that coverage in the Senate will be accomplished before perhaps full-time coverage in the legislature in Juneau might be a reality.

I closed my written comments with an example of how the communications industry here can cooperate. The example happened to involve our company and an NBA exhibition game we are pro-

moting here in this coming October, not because it happened to be our company but it happens to be the most current event that I thought of in terms of—in my prepared remarks.

I could cite you a number of examples of our industry, the long lines people, private telephone utilities and the State has cooperated in many ventures that, in a very small way but yet significantly, have really in my view improved the people's understanding of the world about them.

I point out that this particular event in October is going to be a sporting event because the nature of the event has the unique way of unifying the State for maybe a 2-hour or 3-hour period of time. But I would not want to diminish the significance of that and it would not be possible without the cooperation of a lot of other communications entities. And so contrary, perhaps, to some of the other people that have spoken earlier, my purpose in being before you today and accepting your kind invitation is not to say that the cable needs this and the cable needs that—because you hear that, a lot from very expert Federal lobbying and Washington lobbying officials.

My purpose is to suggest that we should be focusing more of our efforts in this State, also, once again, in the Nation, on making communications better for your constituents in Alaska and the rest of the congressional delegation, and on that note I will close.

Senator STEVENS. Thank you and we will print your statement for the record.

Now what about the 90-percent saturation point already? Can we say that Alaska communications are unique? That is way ahead of any cases in the country.

Mr. GOULD. It just might be, but I do not think you will see 90 percent of the rest of the Nation accessible to cable, to be honest, in my lifetime. I may be wrong, and most of the industry disagrees with me about that. My only thought was that whereas the rest of the Nation will be following along with 90 percent, or more likely 75 percent of home accessible to cable 20 years from now, that is where we are today in Alaska and we will have a tremendous opportunity.

To a large part, it is up to us as private sector industry to see what we do with it. The jury is still out on that.

Senator STEVENS. Did you hear any of the testimony this morning from the utilities and the telephone utilities?

Mr. GOULD. I believe so.

Senator STEVENS. Does the worry that he expressed applicable to cable, that is the problem of our systems similarity to AT&T, and really not covered by the settlement. These problems will have to be worked out?

Mr. GOULD. Are you speaking now with respect to S. 2172?

Senator STEVENS. Just generally what he says is true. You have tried to take care of it in the Senate bill but it has not passed and the FCC still is proceeding.

We do not know what they are going to do, but we do not know really what is going to be a means for division of revenues in the future as far as telephone systems are concerned does the fact that there is a possibility of a substantial rate change affect your industry?

Mr. GOULD. I say by and large no. But it might in this regard, and that is to the extent that the rate change makes the telephone industry reevaluate their needs to compete to survive, I guarantee that that would of necessity, I think, probably involve focusing on areas right now cable thinks it might have entirely to itself. So in one sense it would make greater competition for the cable industry, but I do not think from the regulatory point of view that that would be of concern to us as long as, once again, the regulatory environment is fair for all parties.

Senator STEVENS. Is this question of, sort of piracy, is that common knowledge that you had this problem here in the industry to the extent that you have described? I have never heard of it before.

Mr. GOULD. Well, I guess that is not common knowledge again.

Senator STEVENS. I know it is existent outside, but I do not know if you use it up here.

Mr. GOULD. We do not like to talk about it here because if we talk about it we feel it will encourage people to do something that they do not think is wrong.

I am not saying that everybody should have to take our service or that those individuals who do so illegally perceive that what they are doing is wrong. In some cases they have been told just the opposite by people purveying illegal equipment or it just does not strike them that way.

It is kind of like maybe sneaking into a ball game or something. It is kind of neat to do that, but it is no big deal. It is a major problem for us here in Anchorage and I know it is a major problem for other cable operators around the State, but it is—you are right in that it is not a significant issue out of it, because we do not like to talk about it.

Senator STEVENS. Somebody told me just this past week that there was some person who came to the door and offered to put something on the roof that would give them cable without being hooked up. Is that the kind of system you are talking about?

Mr. GOULD. Unless that is one of our salesmen, yes. That was kind of the situation we face as cable becomes more valuable. Beginning with our MDS service, as cable becomes more valuable we have decided to use addressable converters that cost a lot of extra expense here in Anchorage, which was referred to in my written remarks, for high grade security on cable because we do not want to make the same mistake again that we did in MDS.

That is that as packages become more valuable then the incentive to try to steal them becomes greater. I can go to you and say I can avoid your necessity to pay $30 to $40 to $50 a month and still get everything you want on cable. Clearly there is an attraction on your part to do that, so you get into an ever-escalating war of technology with people who otherwise would siphon off what we consider to be legitimate revenue.

Senator STEVENS. In carrying over-the-air systems in your programing you are on cable?

Mr. GOULD. Do you mean the network?

Senator STEVENS. Yes.

Mr. GOULD. Yes; we are.

Senator STEVENS. You carry that out into the village areas?

Mr. GOULD. We do not carry the Anchorage signals. We do carry—the rural signals do carry a videotape delayed system combination of network programing normally taped off the stations in Seattle simply because that is how it was done originally. That mechanism has been making progress.

Senator STEVENS. You do not tape them here. You tape them from Seattle?

Mr. GOULD. We do not tape them at all, but the people that use that service, the other cable operators, use a service out of Seattle that provides taped broadcasts, network programs.

Senator STEVENS. They tape the network stations on base?

Mr. GOULD. Those are shown exactly as they are shown locally.

Senator STEVENS. You imply in one comment here that while you support this legislation dealing with cable generally, it takes a secondary position to maintain a good relationship with Alaskan municipalities. Is there that much conflict really that has to be secondary?

Mr. GOULD. No; it does not have to be secondary but on a national level. At least my experience in the last month of lobbying over this particular piece of legislation, it has become intense. I can assure you that the National League of Cities and the NCTA have been quite combative and I base that on generally the lobbying paraphernalia I have received from my own trade industry association and by that which I have been shown by people here in the city of Anchorage.

That is totally counterproductive from that point of view with regard to our environment here in Alaska. We do not have any really big argument with the cities. I will express some limited concern with their public-owned telephone utility, but that is a whole separate issue with regard to franchise fees and access rights and all that kind of stuff. In my opinion, if they are not up to—well, excuse me, if not ahead of the requirements for S. 2172, we are at least up to it.

Senator STEVENS. I get the impression that the industry is going through another generation of change, as a matter of fact several so rapidly that many people feel that the regulatory process is incapable of dealing with the developments of your industry.

Is that your feeling?

Mr. GOULD. I would agree with that. Incapable is a strong word, but it is certainly a difficult task.

Again, my concern is with trying to implement pretty much by changing legislation, there in the Goldwater bill, with the mechanism of the FCC bureaucracy and then have it encompass all of the unique needs of the situation here in Alaska. We have a really good regulatory process in place right now and it essentially is a PUC.

It also involves the Governor's office in the last couple of years—professionally staffed people knowledgeable in their industry. They are not motivated, as best as I can tell, by the political processes that sometimes go on in the FCC, and while it may be necessary to come up with a unified national policy for cable—and I think that is a good idea, we should not do that at the expense of what is already in place in Alaska—it is my impression of the best S. 2172 seems to do. I think that it is.

Senator STEVENS. We appreciate your taking the time to be with us. It was very, very informative.

Thank you very much. I got caught up in something that I did not really realize was taking place. Thank you very much.

[The statement follows:]

STATEMENT OF ROBERT J. GOULD, PRESIDENT, MULTIVISIONS, LTD

Mr. Chairman, Members of the Subcommittee, my name is Robert Gould and I am President of MultiVisions, Ltd. We are the cable television operator in the communities of Anchorage, Eagle River/Chugiak and were just recently certificated for the communities of Kenai and Soldotna. In addition, we operate cable television systems under contract with the federal government on Ft. Richardson and Elmendorf Air Force Base. Outside the area of cable television, we operate a single channel multipoint distribution service—"MDS" for short—system in Anchorage and Eagle River under the service name of VISIONS. Finally, we program mini-cable systems for Alyeska Pipeline Service Company at nine pump station sites along the Tras-Alaska Pipeline. These installations are essentially equivalent to satellite master antenna television—"SMATV"—operations in the Lower 48. Counting all of these operations, we provide specialized programming in one form or another to over 15,000 households or approximately 45,000 people in Alaska making us the largest subscription television operator in the state.

I should also note that in addition to myself and other partners as principals, Alascom, the state's major telecommunications carrier, has a minority ownership interest in our company. However, my appearance before you today is primarily on behalf of the Alaska cable television industry representing our company as well as the Alaska Cable Television Association, our state trade organization encompassing almost every cable television operator in Alaska and of which I am President. I am also Vice-Chairman of NAMSCO, the national MDS trade association and will be voicing some of my remarks on behalf of the over-the-air pay television industry as well.

Now that you have some background for the context of my comments, let me briefly focus on the unique communications environment of Alaska. Alaska has the largest geographical area and the fewest people of any state in the union. Because of these factors, communications is not only important, it is vital to our state's economic, social and political development. State officials have long recognized this truth and have undertaken many ambitious programs unheard of in other jurisdictions. The Television Demonstration project now feeding over 150 earth stations in rural Alaska and, more recently, the Instructional Television/Learn Alaska effort bringing full time educational programming to the bush are two of the most noteworthy examples. Dial up telephone service is available throughout the state including isolated communities of as few as 50 people. To implement and administer these efforts, the executive branch of our state government contains a full-time office for communications policy making and planning. In short, with so much of our state's population inaccessible by road and inconvenient or unaffordable by other means of transportation, communications in Alaska is the lifeline of our populace.

Cable television plays an integral part in this communications framework and, if not artificially restrained, will continue to play an increasingly vital role in how Alaskans deal with each other. Most of the cable television systems in Alaska were built more than a decade ago—some as much as 20 years ago—when pioneer operators brought one or two channels of tape delayed network programming and, perhaps, an alpha-numeric newswire display to rural Alaskan communities that had no other source of video entertainment. At the time, this was a major accomplishment. Subsequently, these original pioneers or their successors became more sophisticated and better financed so as to take advantage of recent cable television technology by adding earth stations and upgrading their program offerings. At present, every cable television system in Alaska possesses or has access to at least one earth station and most offer at least 12 channels of programming. In the urban areas of Fairbanks, Anchorage and the Kenai peninsula, cable television is a more recent phenomenon. Fairbanks and North Pole received cable only within the last three years. In the Anchorage area, cable was initiated on Ft. Richardson and Elmendorf in October of 1980 while the civilian communities of Anchorage, Eagle River/Chugiak, Palmer and Wasilla are just beginning to be wired looking towards installation of their first subscribers this fall. The cable systems for Kenai and Soldotna will be built next year. Once the rest of Anchorage and Kenai/Soldotna are wired, over 90 percent of all citizens in Alaska will have access to cable television, an unparalleled

statistic in the cable industry. This means that in Alaska, cable television has the potential to be a significant communications medium on a statewide as well as a local level.

To give you an indication of the direction cable television development is taking in Alaska, our system in Anchorage will be a 54-channel, fully addressable, two-way cable system utilizing an earth station network capable of accessing up to eight satellites simultaneously. In addition, it is my belief that most Alaska operators not presently offering 35 channels will be upgrading to at least that level in the very near future so as to take advantage of the multiplicity of cable program services now available.

Given this current state of cable television development in Alaska, how will pending federal legislation affect our future? To answer this question, one must first understand the cable regulatory environment in the state. Unlike most other jurisdictions, cable television in Alaska is regulated at the state and not the local level. The Alaska Public Utilities Commission regulates cable primarily for certification and, to a lesser extent, quality of service purposes. Accordingly, Alaska cable systems for the most part pay no franchise fees and are not otherwise subject to the normal requests from municipalities for access channels, institutional networks, etc. Furthermore, since July of 1980, cable television rates have been totally deregulated pursuant to legislation that enacted a three-year trial period for this status. This trial period ends in June of next year and new legislation must be enacted or cable rates will automatically become regulated again by the APUC. However, I believe that economic deregulation has, to date, benefitted the cable consumer and I am optimistic that cable will be permitted to continue operation in what is essentially a deregulated mode.

In terms of other regulation, the APUC has taken jurisdiction over pole attachments as permitted by federal law and while no rate formula has yet been established by that body, it, and not the FCC, would be the agency of first resort in resolving pole disputes.

Finally, Alaska is one of two states that lacks an AT&T presence. Therefore, the historical fears of the rest of the cable industry vis-a-vis Ma Bell's predatory intentions do not necessarily apply here.

Having said all this, when then are the concerns of Alaskan CATV operators with S.2172, H.R.5158, the Rewrite Bill or other potential federal communications legislation? First and foremost, it is to ensure that cable can vie for its share of the market on an equal footing with all potential competitors. And this is our industry's paramount concern notwithstanding the absence of AT&T in this state. The spectre of unfair competition in Alasta takes the guise not of Ma Bell but of state and municipally subsidized services. As an example, the State presently funds delivery of entertainment television over-the-air to viewers' homes in all rural cable communities. Thus, many cable operators who originally invested their risk capital based on a given market condition now find themselves marketing their services against one and sometimes two free 16-hour per day channels supported entirely by public funds. This is an ex post facto change in ground rules that places cable at a severe disadvantage.

Concerning telco competition, our concern in Alaska focuses on competing with municipally owned telephone utilities, a potential condition in three major communities: Anchorage, Fairbanks and Ketchikan. As cable and telephone each converge on the new, developing markets for enhanced services (data transmission, home security, two-way interactive services and the like), the potential for municipally owned telephone utilities subsidizing their effort with public funds is a real and present danger. At the moment, this is merely a fear and not a fact. But as the cable industry is properly voicing its concerns on a national level about AT&T and its potential predatory capability, due to its mammoth market dominance, so am I expressing our state industry's concerns about the potential predatory capability of a competing entity with access to unlimited taxation powers. Accordingly, we feel it extremely important that new federal legislation should preclude any form of publicly funded competition with cable. How such a restriction should be structured is not easy to define but it should be obvious that cable will have its hands full competing against many other private sector technologies such as STV, LPTV, MDS, SMATV and DBS without worrying about competition from government owned services.

Secondly, given the nature of existing regulation in Alaska, I recommend that provision be made in future federal legislation for optional substitution of APUC regulation in lieu of FCC or congressional oversight. This is not meant to in any way denigrate the attempt being made in Congress via S.2172 to establish a fair and equitable standardization of CATV rules. However, as is frequently the case in

Alaska, exceptions need to be made in recognition of the special regulatory and technological circumstances of our state. To be more specific, Alaska has in our Public Utility Commission a very knowledgeable and professional regulatory body that is in many ways better suited to assess the needs and conditions for access requirements, cable system cross-ownership, restrictions on subscriber privacy, etc. than is Congress. While it is entirely appropriate for Congress to enunciate national telecommunications policy, it is thereafter appropriate for the APUC to at least retain the option of implementing that policy in accordance with the specialized needs and conditions of our state. Pole attachment jurisdiction has been handled in this fashion with great success. Future legislation should follow this example.

A third concern to pay television operators in Alaska is theft of service. As you know, Section 705 in S.2172 that dealt with this topic was deleted during mark-up and, while I understand the nature of the political horse trading that occurred over this bill, the sacrifice of Section 705 was a serious blow to our industry. I say this not only as a representative of Alaskan cable television operators but also as one of two Alaskan MDS operating companies, a distribution technology where piracy is an especially acute problem. To be sure, better theft of service legislation will not be a panacea to cure all piracy ills, but having a well defined federal statute providing for meaningful remedies will at least give pay television operators a much needed tool with which to better educate the public and, at the same time, pursue blatant opportunists who market illegal cable or MDS receiving devices. To date, the NCTA has been all too silent on this issue and, therefore, other special interest lobbying groups emotionally defending the "freedom of the airwaves" have, so far, carried the day. In my opinion, with pay television services becoming increasingly valuable, theft of service will continue as a growing plague on our industry. Without stronger and more effective legislation enabling the pay television operator to combat this threat, it may grow to a proportion that, for all practical purposes, becomes unmanageable. The alternative is to resort to increasingly expensive technology that merely ups the stakes in the piracy poker game at the expense of legitimate paying subscribers. Unfortunately, this is the route we in Anchorage have been forced to take after enduring very frustrating experiences with inaction on the part of the state and federal prosecution officials and expensive but unproductive civil litigation. Section 705 was not perfect theft of service legislation, but it was a major step in the right direction and should be revived.

Finally, let me focus on the communications environment in Alaska in which subscription television systems operate. Nothwithstanding the specific concerns I have previously addressed, we exist relatively harmoniously with the other media in the state. Commercial television broadcasters and cable really only compete in three markets and, in my opinion, we have established a mutual respect for and understanding of each other. On many occasions the two industries have cooperated in the sharing of satellite feeds, C-SPAN coverage, joint productions and the like. Alascom, the long lines carrier in Alaska, has been very supportive of cable and instrumental in enabling various statewide cable events to occur. Chamber of Commerce video teleconferences among Anchorage, Fairbanks and Juneau along with major closed circuit sporting events are merely two examples of this cooperative relationship.

Even among power and telephone utilities, traditional opponents to cable, most relationships are cordial if not warm. While pole attachment negotiations can and have become heated and protracted, once those terms and conditions are established, the ensuing relationship focuses on simply getting the job done. In fact, in the case of Matanuska Telephone Association which is also the certificated cable utility for Palmer and Wasilla, our company has been working quite closely with their personnel to help them understand their new business.

If any relationship involving cable operators has been exacerbated, it is not one with another telecommunications entity but with the State itself. A specific example would be the previously mentioned state funded services competing with rural Alaska cable systems. However, even in this instance, good faith efforts on both sides has led to one compromise so far that benefits all parties and, hopefully, will serve as the basis for a closer working relationship in the future.

I have taken great pains to illustrate the cooperative and complimentary nature of telecommunications in Alaska because I think it is nationally unique but at the same time a typically Alaskan circumstance. Accordingly, when the NCTA sounds the call to arms to support or oppose some pending federal legislation, we consider first and foremost whether their position is in the best interests of Alaska cable secondarily how it benefits our industry. For this reason, Alaska cable operators do not automatically believe that municipalities are their natural enemies or that our state's dominant long lines carrier has predatory intentions. I would like to believe

that the other telecommunications entities look upon cable with equal objectivity. So, while I honestly believe that S.2172 is a good bill, good for the cable industry and fair to other interests, I also know that a lot of it doesn't happen to apply in Alaska. Therefore, our support of this legislation necessarily takes a secondary position to maintaining good relationships with the Alaskan municipalities. These priorities are right and proper for our industry and our state.

In conclusion, let cite a graphic example of how we operate. This coming October, our company is involved in bringing the Seattle Super-Sonics and the Phoenix Suns to Alaska for an NBA exhibition game. While perhaps commonplace in the Lower '48, this is a major event for Alaska. This game is being telecast to other cable systems and mini-TVs throughout the entire state as well as back to Seattle and Phoenix. This capability was accomplished in cooperation with the State's Division of Telecommunications and through the facilities of Alascom. The telecast is being produced with equipment furnished by two local broadcast stations in Anchorage and is also being co-promoted and will be carried by a local radio station. Finally, the Armed Forces Radio and Television Network will be broadcasting the game to all their remote sites in the state. I can think of no other place in the world where a widely separated body of people could be united, even if just for a brief period of time, through the mutual cooperation of so many normally competitive telecommunications entities.

This is the unique potential of communications in our state. I would hope that any future legislation considered in your Sub-Committee or debated in Congress would be judged in this light and I submit you need look no farther than Alaska for examples that the rest of the nation might follow.

Senator STEVENS. Next we will have Charles Northrip and Bruce Theriault and Elmo Sackett. Gentlemen, again we would like to have you proceed and if we have questions that any one of you would like to comment on, we will start with Charlie. Your name first.

STATEMENTS OF BRUCE THERIAULT, PRESIDENT, ALASKA PUBLIC RADIO NETWORK AND GENERAL MANAGER, KRBD; ELMO SACKETT, GENERAL MANAGER, KAKM, PUBLIC TELEVISION IN ANCHORAGE; AND CHARLES M. NORTHRIP, EXECUTIVE DIRECTOR, ALASKA PUBLIC BROADCASTING COMMISSION

Mr. NORTHRIP. Thank you, Mr. Chairman.

I would like to make a quick lateral, first to my left and then to my right and then close the testimony myself.

Senator STEVENS. However you wish.

Mr. NORTHRIP. First, we will have Bruce Theriault, president of Alaska Public Radio Network, and general manager, KRBD.

Senator STEVENS. Thank you.

Mr. THERIAULT. I would like to thank you for the opportunity to appear in Alaska, so we do not have to go to Washington.

Public radio has been described as an alternative to commercial radio. I do not believe that and I believe that it is even more misleading to describe public radio in Alaska that way. Public radio is a primary service and often the only service. Only four Alaska public radio stations exist in areas where there are more than one radio station available, and eight stations are the only radio at all.

In Alaska, there are radio stations found where roads do not go, and where airplanes deliver groceries. They provide the listeners with the only mass media available, and are often called upon to provide more than traditional radio services.

In the sole service areas, radio stations are often called bush stations. Each day of the year, these bush stations provide the only daily news and information available. It is isolated and lonely in these areas and public radio is a trusted friend.

For example, Molly works for the Fish and Game Office in Dillingham, but spends her lunch hour at KDLG translating news, social events and flying doctor announcements into the language of the Eskimo. Although many speak English, Yupik Eskimo is the first language for most in this area. When weather is bad, the radio is called upon to deliver the mail. "To Bill in Koligenak, from Martha at Kanakanak Hospital: You are a daddy. We had a baby girl this morning. We are both fine. Love, and miss you," is typical. Also typical are messages of life-and-death importance. "Attention Mary in Nakeen: John departed via snowmobile at 10 a.m. If not home by 2 p.m., dispatch rescue team."

As the only station, radio is what people depend on as their primary source of news. National Public Radio programs bring the world closer. Alaska Public Radio Network programs help tie the listeners to other parts of the State. Local news is gathered by telephone, mail, snowmobile, the news director's airplane, bush pilots, and occasionally, by sled dog. People use the bush stations as their newspaper, telephone, mail service, jukebox, and bulletin board.

In the urban centers, public radio also serves its community in unique and important ways. Only public radio can afford the time to provide gavel-to-gavel coverage of important public affairs and news events, in-depth examination of issues that touch and affect the lives of people, programing for, about, and by specific groups of people such as women, Alaska Natives, and other ethnic minorities.

Regularly, public radio stations provide uninterrupted blocks of programing about national and/or local events of concern to the citizens of their communities.

Most stations make regular use of issue-oriented telephone call-in public affairs programs. KRBD in Ketchikan has a weekly program called "Talk of the Town." When city workers were on strike recently, the local union representatives and city officials used KRBD to air their views surrounding the controversy. Through the use of telephone call-ins, citizens were able to get some answers and vent their feelings. Public radio was able to play an important role in helping to bring the opposing sides together.

As you know, Senator, Alaskans hold fast to their autonomy, individuality, and independence. Yet, there is a strong need to share information, to communicate with others in our vast and diverse State.

Therefore, in 1978, these locally controlled and owned public radio stations formed the Alaska Public Radio Network and decided to develop a system to communicate. Since then, there has been extensive statewide programing developed. Two examples of that programing are the daily State news program called Alaska News Nightly and Election Coverage, 1978, and Election Coverage, 1982. Alaska News Nightly is a cooperative production of all 15 public radio stations. It is the only in-depth and extensive statewide radio news program available in Alaska, public or commercial.

Senator, there are many other examples, such as bilingual and multilingual programing, live coverage of Alaska Supreme Court cases, Alaska Legislature coverage, Governors' debates—I could go on. The point is that only public radio is willing to and can afford the air time to undertake this type of programing. Public radio is a

cost-effective means for providing the necessary information that our citizens need in order to participate in the democratic process.

Public radio stations exist because people in their communities need them. They created them and continue to support them. It is common for listener financial support to exceed $2 or $3 per capita. In fact, KSTK in Wrangell raised over $5 per capita in a recent 3-day marathon fundraising drive.

Public radio is not a luxury. It is a necessity in a time of declining participation by citizens in governmental activities. By providing in-depth and well produced programing, by encouraging analysis and debate and by not shying away from confrontation and conflict, public radio stations in Alaska are a positive and essential force in their communities.

I have a footnote, as you know. On August 2, we dedicated the Uplands of Alaska and you participated from Washington. Three of us were present at Eagle River and out there in the woods, so to speak, we listened to your voice. It was quite interesting. Our hopes at that time were that Alaskans would be able to tell the story. That is one of the things we have wanted to accomplish through the use of a satellite uplift from the State. We invited national public radio to come up. All things considered in the morning, in addition to large news programs, we are here this past week and have done a lot of programing from the State. The effect is already apparent in this morning's Daily News.

I would like to share with you just the last part of an editorial that they had, this morning. It goes on toward the end here and it says, "Americans were tuned to the broadcast and will know a great deal more about life in Alaska than the neighbors who were not." Perhaps of equal importance, we suspect that NPR reporters and producers who spend time in our State will see Alaska stories differently in the future as well.

As much as the information they transmitted while here, they will prove Alaskan legacy to their visit that will help translate Alaskan issues to the Nation well into the future. I think it is clear that their hopes are being realized already, very quickly, and I think we have just begun.

Thank you, Senator, and members of the committee, for this opportunity to share my thoughts with you.

Mr. SACKETT. I am Elmo Sackett, general manager of KAKM Public Television Station in Anchorage. I am here to speak on behalf of the newly formed public television network of Alaska made up of four Alaska public television stations in Juneau, Bethel, Fairbanks, and Anchorage. These four stations provide public television service for approximately 80 percent of the population of Alaska.

We would like to begin by extending our appreciation to the Members of the Senate and particularly to you, Senator Stevens, for recognizing the vital role of the broadcasting industry to the State of Alaska. The No. 1 and No. 3 most watched public televisions in America, are located in the 49th State.

According to a November 1981 Nielson Survey, KAKM in Anchorage and KUAC in Fairbanks were rated the highest per capita viewed public television stations in the United States. It is even possible that we may have the four most watched public television

stations in the United States. Nielson does not conduct any audience research in Juneau or Bethel. However, local audience surveys in Juneau indicate that KTOO's evening edition, news broadcast, exceeds all commercial and cable programing in its time period.

The English and Eskimo news and public affairs programs provided by KYUK in Bethel are the only source of local programing in southwest Alaska, a region the size of the State of Pennsylvania.

The public television stations in Alaska provide instructional television to three-quarters of the students in the State. These programs range from kindergarten through college credit courses and include programs produced by Alaskans for use in Alaskan schools.

In an informal manner, our stations are dedicated to the continuing education of all residents. There are the documentaries which profile and share the richness and diversity of our Alaskan life style. Part of that Alaskan life style includes the fact that nearly 1 out of every 10 residents is a licensed pilot. Private planes constitute a vital link in the transportation needs of our State. Aviation safety depends upon a reliable aviation weather forecast. Public television provides this service daily statewide with a half-hour television program.

Alaskans appreciate public television and demonstrate this through their individual financial contributions to their local stations. In Juneau, contributors average $5.71 per household. That is an amazing statistic when compared with the national average, which is less than 50 cents per household.

The Juneau experience typifies the level of support Alaskans provide their local public television stations. This level of financial commitment and large viewership reflects the high quality of national programing offered through PBS. The strength of our national system is important to Alaskans because we rely heavily on public broadcasting to stay in touch with the issues, ideas, social and cultural events of America and the rest of the world. Therefore, we urge you to continue your support of the Public Broadcasting Corporation.

Senator STEVENS. Thank you. Charlie?

Mr. NORTHRIP. Mr. Chairman, I will not be reading from my testimony. I assume it will become a part of the record. I would like to join both my colleagues in thanking you for this opportunity. You have heard from both of them about the unique services provided by public radio and television. I wish to hit on specific concerns of public broadcast in Alaska that are affected by actions either of the Congress or by the FCC.

I will start by talking about public broadcasting being noncommercial, and emphasize the fact that noncommercialism is at the heart of public broadcasting. There is only one real way to state the difference between public and commercial broadcasting, and that is how each of the entities gets their money.

You have heard from both these gentlemen about what public broadcasting does in terms of its programing and that in many parts of Alaska it is the only service available. The reason for pointing out the differences between commercial and public broadcasting is to express concern over Federal measures currently un-

derway which would allow public broadcasters to experiment with advertising as a means of support for their program services.

Such experiments may well indicate that Federal dollars can be replaced by advertising dollars, but at what cost? In order to attract more and more advertising dollars, public broadcasters would inevitably have to alter program schedules and priorities in order to appeal to a commercially viable audience. The distinction between the commercial and public program services would disappear, and commercial broadcasters would find that they had to deal with new competitors in the marketplace.

I am sure you have heard today that commercial broadcasting does not operate on a wide-profit margin in Alaska. Our population is too small to command the advertising which is necessary for comfortable operation.

Our commercial and public broadcasters in Alaska currently agree that both commercial and noncommercial services are needed. That agreement could be rendered meaningless by the use of commercials on public stations. We prefer that noncommercial stations continue to provide the unique programs that our commercial-free environment allows.

I should also point out that Alaska does provide a high level of State support for public broadcasting. Any further loss of Federal support may not be possible for the State to assume. Even if those lost funds could be supplied to Alaska stations, the stations in other parts of the Nation could not be as fortunate. Many expenses heretofore shared among many stations throughout the system could not be met. That would result in a loss of programs, not only here in Alaska but elsewhere in the country, such as Sesame Street and Nova on public television, to name just two.

Echoing Elmo's comments, public broadcasters are grateful for the support you and other Members of the Senate have provided for the appropriations for the Corporation for Public Broadcasting and for the public television communications facilities program at NTIA. Both of these remain vital programs for Alaska stations. The facilities funds are still in demand to provide public services to various parts of Alaska which are still not able to receive them.

Finally, here I will probably be very close to my testimony. I would like to direct your attention to issues surrounding the impact of many of the new telecommunications technologies on existing stations and facilities.

Local school boards have been relied upon to assure that education provided in community schools was appropriate and in accordance with community standards. Similarly, Federal legislation which created the FCC set service to the local area as having the highest priority for broadcasters.

The recent marriage of national satellite transmission with the cable systems has been hailed as the ultimate solution to the problems of scarce channels. No longer would any community have only three or four local TV channels, the argument goes. Now, every citizen will be able to choose from among 12 or 20 or 36 or over 100 satellite cable channels. Therefore, there will be no need for an equal time limit nor for a fairness doctrine.

Neither will there be a need for public television as a elective blend of programs for various audiences not served by the tradi-

tional commercial networks. Even the smallest audiences or the holders of the most radical political points of view will be able to find some channel among the multitude that will satisfy them. That is a seductive argument, but it is not without its flaws.

First, the problem of selection. Up until now, local stations, carrying out their FCC mandated local service roles, have made selections of which programs, out of a large number available, will be broadcast locally. The choice then, for the local consumer, becomes which program out of a possible two to a dozen possibilities will be viewed or heard. Under the new abundant technology, the consumer must choose from a vast array of program choices. It is not impossible, but is there not a danger that the consumer will choose to stay with two or three channels that are the most likely to be satisfying, even if those channels provide a one-sided view of entertainment, information, or politics? One could visualize a viewer or listener who watches only porno movies and extreme right-wing political programs, or one who views only extremely violent drama and extreme left-wing political programs.

You can create other such combinations in your own mind but the threat of a tremendous diversity causing some people to avoid any material with which they are unfamiliar or uncomfortable is a real one.

One of the strengths of our current system is the wide variety that any one over-the-air channel provides. The new multichannel systems could so segment audiences that local stations providing that variety could no longer survive.

Second, the threat of reduced program quality. With such awesome numbers of channels to fill, programers will have to resort to any moving images on film or tape to fill up that channel capacity. Original production demands large amounts of money, while old movies are readily available at a fraction of their original cost. Again, our current system relies on local judgment to select programs that will be of most interest to the community. No such local concern can be allowed when all satellite-driven cable systems are programed nationally.

Third, and finally is the threat of elimination of local programing. As more and more channels become available to every subscriber, it seems to follow that the audience is likely to decrease for any one locally originated channel, even if it is carried on the cable.

Local programs are expensive for such a station to produce but that is the only way for topics such as local and even statewide elections or candidates to be covered. It is unlikely that local stations could continue to produce and schedule those vital local and statewide programs if they lose all other programs to national services.

The technology of abundant channels is here. I am not advocating that your subcommittee turn back the clock or stop the inevitable. What I am suggesting is that a reexamination of our national tradition of localism, education, and culture in broadcasting take place.

Here I might add, there is no more appropriate forum for discussing such an issue than in the Congress of the United States. You certainly have the capability to make that kind of determina-

tion. Steps should be taken to assure that the policy value engendered by that localism not be swallowed up by the new technology, of abundant nationally generated channels.

Thank you, Senator.

[The statement follows:]

STATEMENT OF CHARLES M. NORTHRIP, EXECUTIVE DIRECTOR, ALASKA PUBLIC BROADCASTING COMMISSION

Mr. Chairman, and members of the Subcommittee, my name is Charles M. Northrip, and I serve as Executive Director of the Alaska Public Broadcasting Commission with offices in Juneau. I've held that post for the past year and a half. The past nineteen years of my professional life have all been spent in some form of public telecommunications activity in the State of Alaska. Thank you for the opportunity of testifying before you today on some of the special concerns of telecommunications in Alaska.

You've heard from others who've testified today on the activities of Alaska public radio and television stations and the unique service they provide in both the urban and rural areas of our state. I'd like to highlight some specific concerns of Alaska public broadcasters that are affected by the actions either of the Congress or the Federal Communications Commission.

Noncommercialism is at the heart of public broadcasting. The fundamental difference between public and commercial broadcasting is a difference that influences all other aspects of each industry. Stated simply, it is how the stations get their money.

Commercial broadcasters sell audiences to advertisers. A commercial program is designed to accumulate the maximum mass audience, or, in the case of radio or cable television, a whole station or channel is designed to appeal to a particular audience segment. The "bottom line" for a commercial broadcaster must be CPM (an advertising term meaning cost-per-thousand viewers, listeners, readers, etc.). Advertisers will sponsor the programs that best reach the greatest number of potential buyers of their products or services. The manufacturer of a headache remedy, for instance, would seek sponsorship of programs reaching a mass audience, since all of us, no matter what our age, sex, race, etc., get headaches. The makers of a denture adhesive, on the other hand, would seek a program that would appeal to older Americans, like the Lawrence Welk Show. Manufacturers of acne remedies tend to advertise on the top forty radio stations, in order to reach the teen market.

Public broadcasters provide programs to audiences. Public broadcasting selects and schedules programs for various audiences. Many of those audiences are not large enough for commercial broadcasters to afford. Programs on home repair, programs dedicated to children or senior citizens, programs which examine scientific phenomena, programs on the arts, or instructional programs are all examples of programs which may have audiences too small to attract advertisers.

Public broadcasting also can afford to take the time to explore issues in depth. Instead of a news item on Explorer II's pass-by of the planet Saturn, public broadcasting might provide a full hour program on the event through its showcase science program "nova." Instead of quick weekly situation comedies, which attract mass audiences, public broadcasting provides hour or longer dramatic events written by internationally-acclaimed authors (both contemporary and historical). Instead of quick, five minute radio newscasts every hour, public broadcasting provides ninety minutes a day of "All Things Considered," probably the most thorough public affairs program on radio today. Instead of quick reports from borough assemblies and city councils, Alaska public radio stations often provide gavel-to-gavel coverage of many assembly and school board meetings, and the Alaska stations working together, as you've heard, produce the Alaska Public Radio Network's "Alaska News Nightly."

Public broadcasting also takes chances with new program forms. Since large advertising dollars are not at risk, public broadcasting can "afford to fail" occasionally with a new idea. That experimentation has lead to the adoption of many new forms by commercial broadcasters. The concept of short "docu-dramas" as demonstrated on television with the "Roots" series, was pioneered on public television. "Seasame Street" has inspired many commercial imitators to the benefit of the children of the nation.

Finally, in public broadcasting's list of distinctives, as you've already heard, Alaska public stations sometimes provide the only broadcast service to remote areas of the state, where even the most minimal commercial audiences do not exist. In these locations, public stations provide a full gamut of communications services.

The reason for pointing out the above differences between commercial and public broadcasting is to express concern over Federal initiatives currently underway which allow public broadcasters to experiment with advertising as a means of support for their program services. Such experiments may well indicate that Federal dollars can be replaced by advertising dollars—but at what cost? In order to attract more and more advertising dollars, public stations would inevitably have to alter program schedules and priorities in order to appeal to commercially viable audiences. The distinction between commercial and public program services would disappear and commercial broadcasters would find that they had to deal with a new competitor in the marketplace. As I'm sure you will hear today, commercial broadcasting does not operate on a wide profit margin in Alaska. Our populations are too small to command the advertising rates necessary for comfortable operation. While commercial and public broadcasters in Alaska currently agree that both commercial and noncommercial services are needed, that agreement would be rendered meaningless by the use of commercials on public stations. We prefer that noncommercial stations continue to provide the unique programs that a commercial-free environment allows.

It might be well to point out that the history of broadcasting in the United States shows that almost all original broadcast stations were noncommercial in nature. When commercials were first envisioned on those stations, they were not seen as becoming the driving force behind the industry. That, however, was exactly what happened. In fact, the demand for commercial stations was so great that the FCC had to set aside certain frequencies for use only by noncommercial licensees. I see no arguments being put forward by advocates of advertising on public stations that would negate the threat that public stations would have to become much more like their commercial counterparts in order to survive in such an environment.

Having said that commercials on public broadcasting should not be used to replace existing federal funds, I'd like to express thanks to Senator Stevens in particular and the Senate, in general, for preserving an already reduced appropriation for the Corporation for Public Broadcasting in fiscal year 1983 and beyond. Your actions to date are in complete agreement with the recommendations of the Temporary Commission for Alternative Financing for Public Broadcasting. Those recommendations state that there is, in the short term, no reasonable alternative to continued Federal funding at levels like those recently approved by the Congress.

I should also point out that while Alaska provides a high level of State support for public broadcasting, any further loss in federal support may not be possible for the State to assume. Even if those lost funds could be supplied to Alaska stations, the stations in other parts of the nation would not be as fortunate and many expenses heretofore shared among all stations in the system could not be met. Such an event would result in the loss of such programs as "All Things Considered" on radio, and "Sesame Street" and "Nova" on television, not only in Alaska, but throughout the nation.

Similarly, thanks are due Senator Stevens and others in the Senate for your actions in continuing the Public Telecommunications Facilities Program, within the National Telecommunications and Information Agency. That program has been responsible for assisting in the start-up of several Alaska public stations. The need, as you have discovered, is not yet satisfied. Here in Alaska, many rural areas still lack the ability to receive even one reliable radio signal. My agency has devised ways of providing radio service at a fraction of traditional operating costs, but we need assistance in providing the initial hardware for such operations. Copies of the APBC's Long-range Plan is included with the printed copies of this testimony.

I'd also like to provide a word of support for increasing the priority level of replacement equipment within the Public Telecommunications Facilities Program. Many stations in Alaska and elsewhere are now reaching the point where original equipment is beyond its useful life. Again, here in Alaska, the Alaska Public Broadcasting Commission is providing funds for the replacement of such items. We cannot do the job alone, however, and would argue that more PTEP dollars should be devoted to replacement as the need for new facilities decreases.

Finally, I'd like to direct the Subcommittee's attention to issues surrounding the impact of many of the new telecommunications technologies on existing stations and facilities. Localism has been the focus of many American institutions, including education and broadcasting. Local school boards have been relied upon to assure that the education provided in community schools was appropriate and in accordance with community standards. Similarly, federal legislation, which created the FCC, set service to the local area as having the highest priority for broadcast stations.

The recent marriage of national satellite transmission and multi-channel cable systems has been hailed as the ultimate solution to the problem of limited over-the-air channels in any single area. No longer will any community have only three or four local TV channels, the argument goes. Now every citizen will be able to choose from among twelve or twenty-four or thirty-six, or over one hundred satellite cable channels! Therefore, there will be no need for an equal time provision, nor a fairness doctrine. Neither will there be a need for public television's electic blend of programs for various audiences not served by the traditional commercial networks. Even the smallest audiences or the holders of the most radical political points of view will be able to find some channel, among the multitude, that will satisfy them.

That's seductive argument. But, it is not without its flaws. First is the problem of selection, Up to now, local stations carrying out their FCC-mandated local service role have made selections of which programs out of large number available will be broadcast locally. The choice, then, for the local consumer became which program out of a possible two to a dozen possibilities would be viewed or heard? Under the new abundant technology, the consumer must choose from a vast array of program choices. That's not impossible, but, is there not a danger that the consumer will choose to stay with two or three channels that are most likely to be satisfying, even if those channels present a one-sided view of entertainment, information or politics? One could visualize a viewer or listener who watches only "porno" movies and extreme right-wing political programs. Or, one who tunes only extremely violent drama and extreme left-wing politics. You can create other such combinations in your own mind. But the threat of tremendous diversity causing some people to avoid any material with which they are unfamiliar or uncomfortable is a real one. One of the strengths of our current system is the wide variety that anyone over-the-air channel provides. The new multi-channel systems could so segment audiences that local stations providing that variety could no longer survive.

Second is the threat of reduced program quality. With such awesome numbers of channels to fill, programers are resorting to any moving images on film or tape to fill up that channel capacity. Original production demands large amounts of money, while old movies are available at a fraction of their original cost. Again, our current system relies on local judgement to select programs that will be of most interest to the community. No such local discernment can be allowed when all satellite-driven cable systems are programed nationally.

Third, and finally, is the threat of the elimination of local programming, As more and more channels become available to every subscriber, it seems to follow that the audience is likely to decrease for any one locally-originated channel, even if it is carried on the cable. Local programs are expensive for such a station to produce, but that's the only way for topics like local or even statewide elections and candidates to be covered. It is unlikely that local stations could continue to produce and schedule those vital local or statewide programs if they lose all other programs to national services.

The technology of abundant channels is here. I am not advocating that your subcommittee attempt to turn back the clock and stop the inevitable. I am suggesting that a re-examination of our national tradition of localism in education, culture, and broadcasting take place, and that steps be taken to assure that the positive values engendered by that localism not be swallowed-up by the new technology of abundant nationally-generated channels.

Senator, once again I extend my thanks to you and the Committee for your support of public broadcasting and for providing this opportunity to testify.

Senator STEVENS. To what extent do you have local programing, both radio and television, as it pertains to this context?

Mr. NORTHRIP. We just went through some surveys. I don't have the figures with me on the radio side but local originating programing, following the FCC definition which excludes local D.J. shows, and talks only about programs with 50 percent or more of the programs generated locally, its percentage runs about 20 to 25 percent. In public television, it runs well above 10 percent, which is quite high when compared nationally.

Senator STEVENS. What about funding? How much of your funding is local and how much is State and how much is Federal, would you say?

Mr. NORTHRIP. It varies tremendously in Alaska, as you might have gathered. In Anchorage and the larger populations—I will ask Elmo to give you the exact figure but I would guess it is somewhere near 30 or 40 percent when it comes to local sources.

Mr. SACKETT. About 36 percent from the State and 40 for the local. The amount we are receiving from our Federal appropriation is going down, as you might well imagine. It has gone from 17 percent to about 15 percent.

Mr. NORTHRIP. Of the Federal share, it is about—closer to 10 percent in our radio, and local share runs from a low of below 10 percent to almost 40 percent. The State's support runs from about 40 percent to over 80 percent.

Senator STEVENS. Does Alaska's system really need the CPB contribution? Would there be more money available for the system if CPB did not exist as a programing function as opposed to grant coordinating?

Mr. NORTHRIP. I lost you, there.

Senator STEVENS. Some people really think that we should end Corporation for Public Broadcasting for any function other than division of funds provided for assistance to local stations. If that happened, what would be the initial impact on the Alaska public system?

Mr. NORTHRIP. You are saying what if CPB—I am not talking about reduction of CPB funds. We are talking about all the funds available to CPB going to regular stations.

Senator STEVENS. We require that they all be passed through. If that passed through, what would happen if you used much of this stuff they do, the money that they keep in CPB?

Mr. NORTHRIP. I think the the answer is yes, the stations use it because stations are desperate for programs. Many of the programs CPB funds, either through contracts to NBR or contracts with other producers, turn out to be good programs. I do not want to put words in their mouths, but my inclination would be that there is a lot of faith in the public radio and television system as a station-based system. If those funds are passed through to the stations, then the system would survive and perhaps, in some ways be made better.

Bruce?

Mr. THERIAULT. We are already working with two models. Correct me if I am wrong. It is a buy-back on the television side through the national programing and it is not that way on the radio side. There is a lot of debate now within the system, as you probably know, about which way to go with that. Most people, I believe, and I, certainly, support having the national programs so that we do get programs such as "All Things Considered" and "The Morning Edition." I just don't think that those are the kinds of things that we want to sort of put out there without that kind of support. The other thing that CPB does is provide some of those things like training and whatnot. I think that is very valuable.

I think we still have a very long way to go in involvement of women and minorities. They do a lot of that in the other kinds of professional training. It is still a growing system and the expansion, which I am sorry to see, has been diminished somewhat be-

cause of the funding cuts. I think we still have to get the signals out there where they are not being heard, now.

Mr. NORTHRIP. This is an argument you can run in any direction you like. If all the money goes to stations and it is a limited amount of money, stations, because they are desperate to fill air hours, will generally choose tried and true programs, programs they know will attract audiences and that audiences have been pleased with in the past.

They are not likely to take risks. The presence of some kind of experimental money at the national level does tend to get us some experimental programs, some programs that have risk that individual stations might be unwilling to gamble on. I think most stations will agree that some kind of experimental money needs to be there. In fact, it is one the strengths of public broadcasting. We do end up making those kinds of experiments.

The whole idea of the mini-documentaries, out of which came "Roots" on commercial television, was pioneered on public television. Many of the wonderful children's programs that we now see occasionally on commercial television took as their model "Sesame Street," which was pioneered by public television. Those are programs that nobody on the commercial side was willing to risk or venture capital on.

Only public television and radio can afford that. That is one of the reasons and one of the arguments for keeping some funding at the national level.

Senator STEVENS. Do you have any comment on that, Elmo?

Mr. SACKETT. I would just like to second what Bruce and Charlie have said. Our system of buying programing through the Station Program Cooperative I think is a very good one. It has worked successfully for 9 years and it does have that risk factor built into it. If it weren't for the corporation putting those dollars into some programs, that maybe some of the rest of us would not have gone along with at the time because they were a little different from what we had gotten used to having.

We may not have had "Nova" on the air several years ago but it was CPB money that got "Nova" started. CPB money got a lot of programs that we now take on as a regular part of our daily programing activities. We put our own money into them through the Station Program Cooperative process. It was CPB that put the money in, in the first place.

While I can certainly understand the process of putting money into the stations and then letting the stations buy back, it is sometimes reassuring to know there is somebody out there who is nice and insulated, who can make these kinds of decisions and not worry about it.

Senator STEVENS. Charlie, the provision in S. 2172 that mandates 20 percent of the channels available on a cable system be available for educational access, is that in effect here?

Mr. NORTHRIP. Yes, I think some of our broadcasters offered that in the competitive process of getting certificated and that competitive process assisted in getting some of those offers to the fore in urban areas. But in some rural areas, where there is little or no competition by other cable firms, some educational access requirement may be necessary.

Senator STEVENS. I appreciate your taking the time, gentlemen, to be of assistance to us. Nice to see you again.

Is Marilynn Scott here?

STATEMENT OF MARILYNN S. SCOTT, ASSISTANT SUPERINTENDENT FOR COMMUNICATIONS AND MEDIA, ANCHORAGE SCHOOL DISTRICT

Ms. SCOTT. Senator Stevens. Gentlemen.

I am Marilynn Scott. I am assistant superintendent for communications and media in the Anchorage School District, and I am also very much involved through KAKM with public broadcasting. That is where, Senator Stevens, you may have heard from me in times past, particularly letters and telegrams requesting your support, which is certainly appreciated. It has been most helpful.

My remarks today have been prepared in the form of a letter from Superintendent Davis. I have been specifically authorized to present this information to you today. There are some advantages to being last, and some disadvantages.

I have been privileged to hear some interesting testimony and I may make some comments with regard to some of that testimony as I proceed. In those cases, I will be departing somewhat from my prepared comments.

The following information is provided in the interest of assuring public access to cable systems throughout the United States. I specifically was interested in the last question of Senator Stevens.

Negotiations for such access are currently underway in Anchorage and are expected to be quite satisfactory. I am sorry that Mr. Gould is gone because I will be addressing some of his comments. I am not quite so comfortable with the "satisfactory level" as I was before the hearing.

Nevertheless, the Anchorage School District views it to be important that such planning have the support of any legislation that might be enacted with regard to cable telecommunications in general.

Since early 1979, in fact back in 1978, more than 3 years ago, the Anchorage School District has been actively seeking access to a cable television channel in order to gain more direct communication links with and among the schools of the area and with the citizens of Anchorage, both parents of schoolchildren and other adults.

A number of direct benefits to the public school system, and to the area in general, are expected to accrue from having this resource available to the district. We made those needs known at the time of the APUC hearing to determine which cable operator would receive the franchise in the Anchorage area. It was a subject which I addressed personally at that time in my testimony, which I presented in April 1979, as attached to this letter.

The purpose of this testimony today is to support S. 2172 in the form with which the district has been provided, and to specifically support section 626(b)(1), which guarantees access channels for use by public educational and governmental channel programers, and section 637(a), which authorizes the establishment of regulated rates for both users of channels and cable subscribers.

It is not the district's intention to insinuate that local provisions for school use of cable are unsatisfactory. Actually, although somewhat slower in coming than had been hoped, commitments by the local cable operator have been adequate. However, these commitments have undoubtedly been undergirded by State regulations, which the district does not wish to see eroded.

Attached is a copy of the testimony presented by the district before the Alaska Public Utilities Commission on April 9, 1979, at which time several applicants were competing for the privilege of serving the Anchorage area with a cable television system. The district testimony submitted at that time will only be supplemented here, but it does point out the wide variety of educational uses for cable, which this district wishes to implement.

Additionally, during the intervening 3 years, a number of other uses have been identified, that is, a series of district-organized programs designed to assist parents to know how to help their children learn, as well as regular district-originated broadcasts of study helps for students.

While it is unlikely that all homes will subscribe to cable television, it is likely that many will subscribe to the basic package, the lowest cost group of channels. For this reason, the district has requested and has been verbally assured of inclusion within the local lowest cost subscriber package. Copies of correspondence with the local cable operator are also attached for your information.

We are organizing a program called parents as partners and we are very eager to get this going. Cable is one way you can implement that program.

All of these factors are vitally important to the Anchorage School District, and its incorporation of modern technology into its media and communications delivery. The district thus shares with you its concern as well as its sense of anticipation with regard to cable telecommunications.

Dr. Marilynn Scott, assistant superintendent for communications and media, is making this presentation at my request. I have asked that she read this letter into the record, if at all possible, so that you and others involved in establishing communications regulations will be aware of the importance of cable telecommunications to the Anchorage School District.

Thank you for permitting us to make this presentation.

Senator STEVENS. The Anchorage School District is using television for in-school use too, now, isn't it?

Ms. SCOTT. Yes, they are using public television 2 hours a day. The local public television station has been very helpful, but we do believe that we can have greater use if we have a channel of our own. We will be continuing to use public television for several years because it is going to be a long time before the entire school system is cabled and can receive all of our offerings.

Senator STEVENS. Are you tied into the university's system in some of your instructional programs? Do some of your instructional programs get sent over the university's system to areas, schools in remote areas of the State?

Ms. SCOTT. At the present time, yes, we do share in some ways some of these programs. We do not share it by that method of transmission, however. We do not receive that in Anchorage.

There is some discussion, at the present time, of making some of those programs available in the Anchorage area but it is going to require some more equipment installations. I would want to emphasize that while that will be helpful, it does not solve the problem of the locally originated programs that we want used in the area.

Senator STEVENS. We do thank you very much.

Ms. SCOTT. I am very glad to have heard some of the other testimony.

Senator STEVENS. Thank you, very much.

That will conclude our testimony for this hearing, and I thank everybody who participated in it. We may have some questions that the committee members may wish to address to individuals who testified. If that is the case—I have not heard of it yet, but if that is the case, we would appreciate it if those who did testify would respond to the committee and send us a copy of their response.

Thank you, very much.

[Whereupon, the hearing adjourned at 3 p.m., subject to the call of the Chair.]

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